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ABSTRACT

This text consisting of eight learning activities packages (LAP's) was developed during the California Women Entrepreneurs Project for use in a course designed to help women entrepreneurs learn how to start their own small business. The LAP's included here are self-paced, student-centered modules which take the learner step by step through the process of preparing a business plan. (The final project report and instructor's guide are contained in two related documents--CE 017 320-321.) Each LAP includes a rationale statement, behavioral objectives, homework learning activities, a list of optional reading materials, fact sheets containing basic content, and worksheets. The titles of the eight LAP's are as follows: Small Business Ownership/Introduction; Marketing Research; Marketing Plan; Setting Up Your Business/Start-Up Decisions and Choices; Financial Planning; Financing, Operations/Running Your Business; and Putting It All Together/Planning Your Business. (EM)

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Women Entrepreneurs Project
Instructional Materials

How to start your own business

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September 1977

ADDENDA

Please note the following corrections which should be made in the text.

p. 6 second ●, line 12. "Gross profits" should read "gross sales."

p. 10 second reference, line 7. "Chipps, C." should read "Chipps, G."

p. 35 last word, line 11. For "their," read "there."

p. 46 second line of Before Your Next Class. "Selecting Prices" should read "'Selecting Your Business Location,' and 'Setting Prices.'"

p. 55 line 18. For "their," read "there."

p. 58 lines 13 and 16. "Gross profits" should read "gross sales."

line 31. "Breakeven" should read "cover your expenses."

p. 60 line 2. "Retail" should read "wholesale."

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The guest speakers at our workshops, women who shared their experience and expertise and who showed that women can and do "make it" in the business world;

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In

Small business ownership

Introduction

This learning activities package (LAP) is an introduction to the course on women's business ownership. It will explain the focus of the course, which is on developing a business plan, and how to use the learning activities packages that, combined, provide the outline and materials for the course. The introductory activities include a class presentation on women-owned businesses and a panel of women business owners who will discuss their experiences with you. We believe that the more you know about women business owners and their experiences, the more you will be prepared to start your own business and succeed.

A realistic self-assessment is also a very important step to take before beginning a business--or even starting on your business plan--and a guided self-assessment process is included in this introduction. Parts of this LAP will be used later in other LAP's or will be included in your final business plan.

Working with other course participants allows you to share ideas and concerns and learn from one another. It also means that when you are starting or running your business, there will be a group of people who know about and support your efforts that you can call upon for ideas, assistance, and/or support. The course, therefore, includes both group and individual activities.

When you have completed this introductory LAP, you will be able to:

1. Explore the fit between your personal interests, motives, and goals and the business you have chosen.
2. List the managerial skills, knowledge, and abilities that are important to succeed in a business venture.
3. Contrast the characteristics of a successful business to those of a marginal or unsuccessful business.
4. Assess your personal situation and readiness to start a business.

Before your next class: Complete the Self-Rating Form (page 14) and review the materials included in the LAP. Read the "Small Business Background Information" and the "Women as Business Owners" fact sheets.

The activities listed below are designed to guide your learning. If you follow them, step by step, you should be able to meet the four goals of this introductory LAP when they are completed.

1. Attend a class presentation on small business ownership and women as business owners.

2. Participate in a panel presentation and discussion with women business owners.

3. Share in small group discussion:
   a. your reasons for wanting to go into business
   b. your reasons for selecting the business you have chosen or are considering
   c. your goals for yourself and for your business

On your own...

4. Read at least two articles on or profiles of business owners--preferably women--in your general field of interest. A Reference List of articles you might want to read is included in the LAP and your instructor has additional readings or references.

5. Complete "Business Owner Reading Worksheets" on two of these readings.

6. Visit a business similar to the one you plan to start and interview the owner. The "Business Owner Interview Questions" included in the LAP materials provides you with guidelines you can use in conducting the interview. If you are uncertain about whom you might interview, talk it over with you instructor. While we have found business owners are very willing to be interviewed, they are busy people and it is a wise idea to call and arrange for an interview at their convenience.

7. Assess your readiness to go into business now:
   a. compare the Self-Rating Form you completed with the self-rating profile (Table 2) in the "Women as Business Owners" fact sheet;
   b. complete a personal financial statement and a cost-of-living budget (The forms are included in your LAP. If you are married, you will probably prefer to use your family financial situation as the basis for filling in these forms.);
   c. consider the positive and negative effects that going into business may have on your personal and family life;
   d. think about the managerial skills, knowledge, and abilities that you believe are important to succeed in the business you have chosen and how you would rate yourself on each of them;
   e. complete the "Self-Assessment" worksheet.

8. Write a personal history or resume of your education and work experience. You should especially mention and explain in detail any experience that is related to your future business. Resume Guidelines are included in the material you have received with this LAP. A resume is an important part of your business plan and you should write one regardless of whether or not you plan to seek money from banks or investors.

9. Review the vocabulary list.

10. Take part in a small group brainstorming session on:
    a. the characteristics which distinguish a successful business from a marginal or unsuccessful business.
    b. the important skills and abilities of a business owner.

MATERIALS

The materials that should be included in your LAP are:

Fact Sheets:
Small Business Background Information
Women as Business Owners

Reference List: Articles and Profiles on Business Ownership

Business Owner Interview Questions

Worksheets:
Self-Rating Form
Business Owner Reading Worksheet (2 copies)
Personal Financial Statement
Cost-of-living Budget
Self Assessment

Resume Guidelines

Vocabulary List: Business Terms

Optional Reading

Bank of America. Steps to Starting a Business. Small Business Reporter, 10 (10), 1976.

Bank of America. How to prepare a personal financial statement. Consumer Information Report 5, 1976.

Fiske, H. and Zehring, K. How to start your own business. Ms. April 1976, pp. 55-69.

Jessup, C. and Chipps, G. The Women's Guide to Starting a Business. New York: Holt, Rinehart, and Winston, 1976.

Metcalf, W.O. Starting and Managing a Small Business of Your Own. Small Business Administration: The Starting and Managing Series 1, 1973.

Wortman, L.A. Successful Small Business Management. New York: AMACOM, 1976, chapters 1 and 2.

With the exception of the Bank of America Consumer Information Report, all of these publications provide a good overview of the various considerations involved in starting a business. Your public library may have copies of some or all of them.

SMALL BUSINESS BACKGROUND INFORMATION

There are many definitions of "small" business size. According to the Small Business Administration's (SBA) definition, 9.2 million--of a total of 9.7 million--businesses in 1972 were "small." In 1972, 402,025 firms (4.6% of all businesses) were owned by women. These women-owned businesses accounted for 0.3% of all business receipts and almost three-quarters (73%) of them had fewer than 5 employees. Regardless of what definition of "small" business you prefer, it's clear that most businesses owned by women are small.

More than 300,000 new businesses are started each year. About 50% fail within the first two years and, after five years, 80% will have failed. Wertz, testifying before the Joint Economic Committee of the 93rd Congress, reported:

> The factor that determines the difference between success...and failure, are in this order: money, motivation, determination, expertise in a particular field, access to expert advise, and time--which brings one back to money. It takes money to buy that time.

The SBA has found that the largest single cause of business failure is poor management. Dun & Bradstreet, a credit agency for U.S. small businesses, found 90% of the business failures they analyzed were due to lack of managerial experience and aptitude.

The business plan is an important tool for people who want to start a successful business. The business plan describes--in writing and figures--the business you plan to start; it includes a description of your product or service, a market analysis and strategy, an organizational plan including personnel information, and measurable financial objectives. It allows you to turn your idea into a working operation. Developing a business plan helps you to see whether the business you want to open will work, what you will need to make it work, and what kinds of problems you may face so that you can figure out ways to deal with them. When you have developed your business plan, you can show it to bankers, creditors, and suppliers who may be interested in investing in it. Once you've started your business, your business plan gives you guidelines for measuring your business' growth and effectiveness. Regardless of whether you plan to finance your business yourself or seek outside funding, you should develop a complete business plan.

The Women Enterpreneurs Project designed the materials that you will be using in this course on "How to Start Your Own Business" to help you develop a business plan. When you have completed all the Learning Activities Packages, you will be familiar with all of the topics that need to be covered in a business plan. Furthermore, these guidelines apply to all types of business ventures--retail, service, wholesale, mail order, manufacturing, or construction. The examples provided in the materials are often related to retail or service businesses since these are the business fields in which women are most heavily concentrated; however, the general topics these examples illustrate should be considered by all future business owners. For example, every business needs a location--even if your kitchen or garage serves as your business site--and your location decision should be made only after you have carefully considered your business' needs. All of the materials and information included in this course are basic to the development of your business plan and, therefore, deserve your attention.

Background: In 1977, when the Women Entrepreneurs Project was funded to develop this course especially for women, the project staff decided that an important first step would be to find out what was known about women business owners--their backgrounds, special skills, and the problems they encountered in starting and running a business. They discovered that very little was known about this exceptional group of women. So that this course would have a base in the practical realities of women's experiences as business owners, a questionnaire was designed and sent to a number of women business owners in California. The responses of 308 women business owners are summarized below to provide a picture of these women and their businesses.

Current Status

- About two-thirds of the women business owners (WBO) describe their business as "successful": that is, the business is breaking even or better (31%) or is actually profitable (34%). Most of the other WBO say that their business is struggling but potentially profitable (29%).

- Almost half (48%) of the WBO were sole owners of a business; 23% were partners; and 28% were owners of a business organized as a corporation. Sole owners were somewhat less likely to describe their business as successful (60%) than were owners of partnerships and corporations (72%). This is undoubtedly related, in part, to the finding that sole owners tended to start their business with less capital: 64% began with less than $5,000 and only 8% had $20,000 or more; in contrast, 53% of owners of other legal forms of business report starting with under $5,000 while 17% began with $20,000 or more.

- Over three-fourths (79%) of the WBO had started their own business, rather than buying or becoming a partner in an existing business, setting up a franchise outlet, or stepping into a family-owned business.

- Most of the WBO owned service or retail businesses. The WBO described their businesses as:

Service	38.5%	Wholesale	5.7%
Retail	24.4	Construction	5.3
Manufacturing	17.2	Transportation**	1.9
Finance*	6.0		

Sole owners were especially likely to have service and retail businesses.

---

*Finance includes banking, insurance, and real estate.

**Transportation includes local and urban transit and trucking and warehousing.

- The majority (62%) of the WBO reported last year's gross sales were less than $100,000. Of those businesses with gross sales of $100,000 or more, 67% were more than 5 years old; while only 31% of businesses with gross sales of under $100,000 had been in business for that long.

- Two-fifths of the WBO reported their net profits in the past year were less than $5,000; while 23% reported a net profit of $20,000 or more.

- Ninety-two percent of the WBO were personally involved in managing the day-to-day operations of their businesses. They put in long hours: almost two-thirds of the respondents report spending over 40 hours a week on business matters.

- One-third of the WBO reported they have no employees; sole owners are more likely than owners of partnerships or corporations to have no employees. Forty-five percent of partnership and corporation owners report having 5 or more employees, in contrast to 17% of sole owners.

The "Start-Up" Decision

- What motivated these women to start a business? The most frequently mentioned major reasons for becoming a business owner were:

Wanted to make a living by working for myself instead of for others	77%
Wanted to build up a business for future income/activity	69
Saw a real need/demand for a business like this	51

The major reasons the WBO chose their particular businesses were:

Suited my skills, talents, and/or abilities	80%
I liked the idea of this kind of business	70
I had experience/training in this area	68
I saw a real need/demand for this product or service	56

- Once they began seriously to think about going into business, the vast majority of WBO moved quickly: 71% had started their businesses within the year.

Given the statistics on failure rates of new businesses, it is interesting to note how rapidly the majority of WBO made their decision, how parsimonious they were in their use of business consultants (Table 1), and how little money they had with which to start their business (see next section). Nonetheless, only 15% saw their venture as a high risk when they started out.

"Start-Up Capital

- Most WBO started their businesses with little capital: one-third began with less than $1,000, and another 26% started out with $1,000 to $5,000. Only 3.7% had $50,000 or more with which to start their business.

- Nonetheless, just over half of the respondents felt they had had enough capital to start their business.

- Asked what their major sources of "start-up" capital had been, 74% of the WBO reported use of personal cash and savings. The next most frequently mentioned major source of capital was loans from family (23%). Thirty-three WBO had received a commercial business loan from a bank, and only 10 had received a Small Business Administration (SBA) loan.

Past and Present Problems

- Major "start-up" problems encountered by WBO were: (1) money--how to get credit and a lack of sufficient capital for cash flow; (2) visibility and advertising--how to build a reputation and advertise effectively; and (3) lack of management skills--recordkeeping and financial planning.

- These same problems were the major current problems cited by the WBO with the addition of a fourth concern, employee relations--how to find and keep competent, reliable help.

  As one would expect, money and visibility were particularly problems of struggling businesses, while employees tended to be a problem of "successful" businesses.

Assistance

- More than half of the WBO consulted with family and friends prior to opening their businesses (see Table 1).

  Since opening their businesses, the most frequently consulted experts are accountants, lawyers, insurance agents, and owners of similar businesses. Sole owners tend to go to other business owners for advice and assistance more often than do owners of partnerships and corporations. On the other hand, owners of partnerships and corporations tend to report greater use of lawyers, accountants, bankers, and advertising agency representatives than do sole owners.

Table 1

Resources consulted by women business owners for business advice and assistance (in percentages)

Resource	Prior to Opening	Since Opening
Accountant	43%	84%
Ad agency representative	12	28
Banker	38	56
Family member	58	53
Friends	55	56
Small Business Administration (SBA)	23	32
Office of Minority Business Enterprises (OMBE)	1	5
Other government agency	5	15
Insurance agent	35	66
Lawyer	48	71
Owner of similar business	47	65
Owner of business in other line	36	56
Supplier/Wholesaler	38	57

Personal Characteristics

- WBO report having started their first business at an average age of 32. The current ages of the respondents ranged from 22 to 70, with an average age of 42.

- The WBO are well-educated: over 80% have more than a high school education and 35% have a Bachelor's or higher degree.

- Most WBO report previous experience with the business world:

  - 38% report having attended business courses or seminars
  - 35% report that their father was a business owner and 15% that their mother owned a business
  - 35% report having managed or worked in a business similar to the one they now own
  - 32% report having managed or worked in a different kind of business from the one they now own
  - 30% report some family member or relative other than a parent was a business owner
  - nearly 20% report having previously owned another business.

- Almost half of the respondents are unmarried: 47% report that they are single, separated, divorced, or widowed.

  About one-third (35%) of the WBO have no children, and another 34% have only one or two children.

  Generally, the family response to the WBO's decision to go into business was positive: 58% report a very supportive family reaction, while 20% report an indifferent or nonsupportive reaction.

- One-third of the respondents report personal incomes of under $10,000. Table 2 shows the incomes reported by the WBO.

Table 2

Personal incomes reported by women business owners*
(in percentages)

Personal Income	%
None	6
$ 4,999 or less	10
$ 5,000 - $ 9,999	17
$10,000 - $14,999	21
$15,000 - $19,999	17
$20,000 - $29,999	16
$30,000 - $39,999	5
$40,000 or more	9

*Only 264 of the 308 respondents chose to provide this information.

- When asked if they would still start their business if they had it to do over again, 93% said yes, they would. Sole owners were more likely to respond positively to this question than were owners of partnerships or corporations: 98% versus 88% respectively of each group said yes. This is especially interesting in light of the fact that sole owners had been somewhat less likely than the other group of owners to report that their business was "successful."

- While some of the WBO reported no business problems and that they would do nothing differently were they to start over again, a more typical response was provided by the WBO who said of her life since becoming an entrepreneur: "It's mostly one big problem of dealing with my business--but it's too exciting and rewarding to give up."

Self-Rating

- The WBO were asked to rate themselves on a number of personal traits and skills using a 5-point scale (from very strong to very weak). The profile which emerges reflects a highly energetic, confident, and capable group of women.

  Over half of the WBO ranked themselves as "very strong" (in descending order of frequency mentioned) on integrity, taking responsibility, working hard, self-reliance, independence, drive to achieve, energy, and persistence.

  In only three areas do 10% or more of the WBO rate themselves as below average: patience (17%), handling money and financial matters (11%), and planning ahead (10%).

- A few interesting differences on the self-ratings were found among different groups of WBO. Sole owners were more likely than owners of partnerships and corporations to see communicating with others as an area of personal strength. The self-ratings on handling money and financial matters were clearly related to business success: owners of profitable ventures tended to rate themselves higher than did owners of businesses that were breaking even and owners of struggling businesses rated themselves lowest of the three groups. However, on self-confidence, owners of struggling and of profitable businesses rated themselves similarly and higher than owners of businesses that were breaking even. The only trait which seemed to differentiate between owners of different kinds of businesses was flexibility: more owners of service, manufacturing, and wholesale businesses rated themselves as strong or very strong than did owners of retail or construction businesses.

- The comments added to the questionnaire by some respondents indicate that the experience of starting and running a business had contributed to the uniformly high self-ratings. For example, one woman wrote: "NOW these are my responses. Four years ago when I started this business I would have answered all the questions in this section 1 or 2 (very weak or weak)." Keep this in mind when you compare your self-rating to those shown in Table 3.

- In Table 3, the percent of WBO rating themselves in each category is shown. On self-confidence, for example, 35% rated themselves as very strong, 43% as strong, 18% as average, 4% as weak, and none as very weak. The average rating, shown in the last column, is a "4" for strong.

Table 3

Self-ratings by women business owners

Trait or skill	% very strong(5)	% strong(4)	% average(3)	% weak(2)	% very weak(1)	Average rating
Self-confidence	35	43	18	4	0	4.0
Optimism	42	38	17	3	.3	4.2
Leadership	33	39	24	4	0	4.0
Flexibility	32	35	29	4	1	3.9
Handling money and financial matters	27	32	30	9	2	3.7
Imagination	45	29	24	2	0	4.1
Planning ahead	24	37	29	9	1	3.7
Patience	26	23	34	13	3	3.6
Assertiveness	30	38	28	4	1	3.9
Energy	51	34	14	1	.3	4.3
Taking responsibility	67	26	7	.3	0	4.6
Working hard	66	27	7	1	.3	4.6
Drive to achieve	54	33	11	2	1	4.4
Integrity	75	17	8	0	0	4.7
Self-reliance	61	28	11	1	0	4.5
Realism	31	41	25	3	0	4.0
Organization	32	35	26	6	1	4.0
Persistence	51	34	15	1	0	4.3
Composure	27	35	34	4	0	3.8
Taking calculated risks	25	39	29	6	.3	3.8
Physical health	46	27	22	4	.3	4.2
Communicating with others	41	40	16	2	.3	4.2
Independence	60	27	12	1	0	4.5
Getting along with people	47	41	11	1	0	4.3
Making & trusting decisions	36	43	18	3	0	4.1

Articles and Profiles on Business Ownership

Enterprising Women: A Business Monthly. This publication is an excellent source of information for the small business owner. First-hand, step-by-step stories of businesses begun by women are included in each issue. Published by Artemis Enterprises Inc., 525 West End Avenue, New York City 10024. (phone (212) 787-6780)

Jessup, C. and Chipps, C. The Women's Guide to Starting a Business. New York: Holt, Rinehart, and Winston, 1976. Available in paperback The second half of the book contains profiles of businesses started by women.

Mayer, K.B. and Goldstein, S. The First Two Years: Problems of Small Firm Growth and Survival. Small Business Administration Research Series No. 2. Washington, D.C.: SBA, 1961. This book reports on a study of the first two years of 81 businesses. It includes a sample profile of a business from each of the "success" categories developed by the researchers. Some of the businesses are women-owned.

Unless you're a whiz at converting 1961 dollar amounts to today's equivalent, a lot of the financial figures won't mean much, but the problems of these businesses and the information in the book is not out-of-date.

The Bank of America has published a series of profiles on different kinds of businesses called The Small Business Reporter. Rather than focusing on a particular business--for example, giving a history of Jane Crown's plant shop--they provide a more general picture of plant shops as a business field. An owner profile is usually included, as are quotes from business owners in the field. These publications are an excellent source of information. They are available free of charge at any Bank of America community office or, at the cost of $1.00, from Small Business Reporter, Bank of America, Department 3120, P.O. Box 37000, San Francisco, California 94137. (phone (415) 622-2491). Your instructor should have a list of available titles.

Magazines and newspapers (especially the "Business and Finance" section) frequently print profiles of businesses and their owners. New Woman magazine includes a regular column called "Business on a Shoestring" which briefly reports on businesses begun by women.

U.S. Department of Commerce. Bureau of the Census; Office of Minority Business Enterprises. Women-Owned Businesses 1972. Washington, D.C.: U.S. Government Printing Office, 1976. This report gives an overview of women-owned businesses nationally and for various areas of the country. While it sketches broad outlines and provides only general information, it's a good introduction to the current situation of women business owners.

BUSINESS OWNER INTERVIEW QUESTIONS

While your interview with a business owner does not need to follow the order or wording of the questions listed below, you should be able to answer all of these questions after the interview is completed.

1. What is the owner's personal (education and work) history?

   - Did anyone in her/his family own a business?
   - Had she/he worked in a business before?
   - Had she/he managed or owned a business before?
   - What in her/his background prepared him/her for owning and operating this business?

2. Why did she/he decide to start a business?

   - Why did she/he choose this particular business?

3. What is the business' legal form (sole ownership, proprietorship, or corporation)? What legal forms and processes had to be completed before the business could be opened?

4. How much money did she/he have to start the business?

   - Where did she/he get the money?
   - What would the ideal amount of capital to start this business have been?
   - How long did it take to reach the break-even point?

5. What kind of planning and groundwork did she/he do before opening the business?

   - How long did the planning stage last?

   - Did she/he develop a long-range plan?

   - What resources and experts did she/he go to for information and assistance? What did she/he learn from them?

   - How and why did she/he chose the site for the business?

   - How did she/he advertise the opening of the business?

6. What kinds of problems has she/he faced since opening the business?

   - How were these problems handled?

7. What kinds of records are kept for the business?

8. How is the business currently doing?

9. How did the owner's family and friends react to her/his decision to start the business?

10. What has owning a business been like for her/him?

- What does she/he see as the advantages and disadvantages of owning a business?

- Would she/he do it over again? If so, what would she/he do differently?

11. What kinds of information and skills does she/he believe are necessary to succeed in this kind of business?

12. What advice would she/he give to a woman who wanted to start a similar business?

13. What does the future look like for this business?

SELF-RATING FORM

In5

Please describe yourself by circling one number after each word or phrase below to indicate whether it is an area in which you see yourself as very strong, strong, average, weak, or very weak.

	Very Strong	Strong	Average	Weak	Very Weak
self-confidence	5	4	3	2	1
optimism	5	4	3	2	1
leadership	5	4	3	2	1
flexibility	5	4	3	2	1
handling money and financial matters	5	4	3	2	1
imagination	5	4	3	2	1
planning ahead	5	4	3	2	1
patience	5	4	3	2	1
assertiveness	5	4	3	2	1
energy	5	4	3	2	1
taking responsibility	5	4	3	2	1
working hard	5	4	3	2	1
drive to achieve	5	4	3	2	1
integrity	5	4	3	2	1
self-reliance	5	4	3	2	1
realism	5	4	3	2	1
organization	5	4	3	2	1
persistence	5	4	3	2	1
composure	5	4	3	2	1
taking calculated risks	5	4	3	2	1
physical health	5	4	3	2	1
communicating with others	5	4	3	2	1
independence	5	4	3	2	1
getting along with people	5	4	3	2	1
making and trusting decisions	5	4	3	2	1

BUSINESS OWNER READING WORKSHEET

Based on the article or profile you have read, answer as many of the following questions as you can.

1. What words would you use to describe the business owner?

2. What made her/him decide to start this business?

3. Did she/he have any background that prepared her/him for this business? If so, what was it?

4. How did she/he get the money to start?

5. Circle the word which best describes this business.

Retail	Wholesale
Service	Construction
Manufacturing	

6. What - if anything - makes this business different from its business competitors?

7. What kinds of problems has the owner had with her/his business?

8. What does the owner see as the advantages and disadvantages of being in business for her/himself?

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PERSONAL FINANCIAL STATEMENT

In7

Before you start a business, it's important that you carefully assess your financial situation. This will help you to determine if you are ready to go ahead now or if you need to take time to improve your finances first. It will help you decide how much money you will need to have available until your business begins to make a profit--which can be six months to a year and a half after start-up--and what minimum amount you will have to make to live on once your business is profitable. If you plan to apply for a loan to start your business, you will need to provide this--or similar--information. This worksheet and the "Cost-of-Living Budget" worksheet will help you organize your personal financial information.

BALANCE SHEET

ASSETS [Everything you own with cash value.]

Cash Money you have on hand and in the bank $______________

Savings Accounts $______________

Stocks, Bonds, Other Securities $______________

Accounts/Notes Receivable $______________

Life Insurance Cash Value $______________

Rebates/Refunds $______________

Autos/Other Vehicles $______________

Real Estate $______________

Vested Pension Plan/Retirement Accounts $______________

Other Assets Furnishings, appliances, jewelry, furs, cameras, tools, pets, trusts, etc. $______________

TOTAL ASSETS $______________

LIABILITIES [What you owe; your debts.]

Accounts Payable $______________

Contracts Payable $______________

Notes Payable $______________

Taxes $______________

Real Estate Loans $______________

Other Liabilities Court-demanded payments, etc. $______________

TOTAL LIABILITIES $______________

TOTAL ASSETS $______________

TOTAL LIABILITIES – $______________

NET WORTH $______________

COST-OF-LIVING BUDGET

In8

In filling out this worksheet, base your figures on an "average" month. With expenses like insurance payments or taxes that may come up periodically but not on a regular monthly basis, calculate a monthly figure. For example, if you pay a car insurance premium of $120 every six months, it comes to $20 a month.

DETAILED BUDGET

Regular Monthly Payments

Rent or House Payments (including taxes) $______
Car Payments (including insurance ______
Appliances/TV Payments ______
Home Improvement Loan Payments ______
Personal Loan Payments ______
Health Plan Payments ______
Life Insurance Premiums ______
Other Insurance Premiums ______
Miscellaneous Payments ______
TOTAL $______

Household Operating Expense

Telephone ______
Gas and Electricity ______
Water ______
Other Household Expenses Repairs, Maintenance ______
TOTAL $______

Food Expense

Food--At Home $______
Food--Away from Home ______
TOTAL $______

Personal Expense

Clothing, Cleaning, Laundry, Shoe Repair $______
Drugs ______
Doctors and Dentists ______
Education ______
Dues ______
Gifts and Contributions ______
Travel ______
Newspapers, Magazines Books ______
Auto Upkeep, Gas and Parking ______
Spending Money, Allowances ______
TOTAL $______

Tax Expense

Federal and State Income Taxes $______
Personal Property Taxes ______
Other Taxes ______
TOTAL $______

BUDGET SUMMARY

Regular Monthly Payments $______
Household Operating Expenses $______
Food Expense $______
Personal Expense $______
Tax Expense $______
MONTHLY TOTAL $______

If you live with another person who contributes to paying some or all of these expenses and you have not allowed for this in filling in the form, subtract the amount of his/her contribution from the total figure to arrive at an estimate of the amount you need to have in order to cover monthly expenses. If you have such an arrangement, look at it carefully before you count on that income to meet expenses. Husbands lose jobs and roommates can be transferred to another city. If a change is probable, consider how it would affect your financial situation, particularly if your business was just getting started.

SELF-ASSESSMENT FORM

In9

Look at your current life situation and in the space provided below list what you see as your strong points and as areas that need improvement if you are to reach your goal of successful business ownership. In completing this worksheet, consider your personal characteristics, your financial situation, and your personal and family life, as well as your business and managerial experience, skills, knowledge, and abilities.

Begin to consider ways in which you might strengthen the areas you feel need improvement. Your strategy might include seeking a partner whose skills and abilities complement yours, consulting an expert in a particular field (for example, an accountant), and working to improve your own position.

Strong points	Needs improvement

Your resume is a part of your Business Plan. It should show all of the background and experiences you have that have prepared you for your goal of business ownership. If you apply for a loan, private investors, bank loan officers, or government agency personnel who review your application will be looking for indications of your ability to own and manage a business when they read your resume.

Your goal in writing your resume, then, is to convince people reading it of your qualifications for owning and running a specific kind of business. Don't use an old resume that you wrote for some other purpose and don't just "adapt" your friend's resume. Keep it brief; it should run no longer than two pages. Concisely stating your qualifications will probably be harder than just unselectively rambling on in great detail, but conciseness is a valuable business skill and readers are not going to be impressed by a chatty 10 page resume.

Don't include anything your readers may interpret in a negative way. For example, "divorced" may be read by a potential investor as "quitter", "irresponsible", or "unstable". It may be information that comes out at some point in the application process, but there is no need for you to volunteer it on your resume. Likewise, readers who learn that you have 5 children may assume that you won't be able to devote enough time to your business. In general, personal information on your marital status, number of children, date of birth, height, and weight does not have to be listed on your resume.

Your resume should be typed, neat, and easy to read.

If you wish, you may use the Resume Outline on the next two pages as a guide in writing your resume. You do not need to include all the headings that are listed, though "Education" and "Experience" should definitely be included. Your instructor has examples of resumes that you can review to get a feeling for ways other people have written up their qualifications.

Resume Outline

Name
Address
Telephone
Date of Birth (optional)

Education

List the name of the school you attended; the dates you attended (9/66-6/68) or the year (1970) you graduated; and your major or minor subjects or fields. You should list your high school if (1) you graduated in or near the community in which you plan to open your business or (2) your high school diploma was the last certificate you received. If you attended college for a couple of years or have taken a few classes at the local adult school or community college, mention them. If any of the courses you took are related to your business idea or show you have studied useful subjects, list them. For example, good grades in accounting or bookkeeping should be listed and so should classes in needlework if you plan to open a needle crafts store.

Experience

List the position you held, the name of the business you worked for and its location (city and state), and describe your job briefly. List the dates you worked at each job in reverse chronological order; that is, June, 1968 - July, 1969 or 6/68 - 7/69. For example:

6/68 - 7/69 Salesperson. Gertrude's Gowns, Urbana, Illinois. Major job responsibilities were helping customers; selling and keeping a record of sales. Other job responsibilities included supervising 5 salespersons, light bookkeeping, ordering stock, and managing the store when the owner was on vacation.

You should include both paid and unpaid and full and part-time work experiences. Volunteer work and internships may demonstrate valuable experience.

Honors and Awards

Academic honors and special awards of any kind that are related to your business goal should be mentioned. If you won the U.S. Women's Open golf tournament and you plan to start a golf shop, you obviously want to list your award.

Activities and Interests

This category should be included if your activities and/or interests are related to your business plan or if they are unusual.

Memberships

If you belong to any organizations or associations that are relevant to your business plan list them. If you planned to open a science fiction bookstore and you are a member of Science Fiction Writers of America or the local Chamber of Commerce, both would be useful memberships to mention.

Other Background Information

Any other assets, skills, or experiences you have that are important to your business plan and which can't be easily organized under one of the other headings should be added here. Anything of a personal but related nature can be mentioned.

References

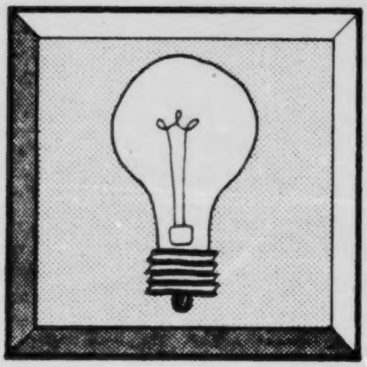
It isn't necessary to list references on your resume. You can say that references are available upon request. It is important that you ask permission of anyone whose name you give as a reference.

VOCABULARY LIST

Account - a record of a business transaction or deal
Accountant - one who is skilled at keeping business records
Accounts receivable - a record of what is owed to an account
Analysis - breaking an idea or a problem down into its parts or a good examination of the parts of anything
Articles of incorporation - a legal document filed with the state which sets forth the purposes and regulations for a corporation
Asset - anything of worth that is owned
Bad debts - money owed to an account that the agent cannot collect
Balance - (1) the amount of money remaining in an account, (2) when the amounts of money in a positive (credit) account and a negative (debit) account are equal
Balance sheet - an important business record which shows what a business owns and owes at any one time
Business venture - taking financial risks in a commercial enterprise
Capital - available money to invest or the total of accumulated assets available for production
Capital requirement - a list (or schedule) of expenses which must be met to establish a business
Cash - money in hand or readily available
Cash receipts - the money received by a business from customers
Chain of command - the proper lines of authority between the head of an organization, its managers and supervisors and its workers
Contract - an agreement regarding mutual responsibilities between two or more parties
Controllable expenses - those expenses which can be controlled or restrained by the business' employees
Corporation - a business venture comprising a group of individuals or objects treated by the law as an individual
Co-signers - joint signers of a loan agreement, pledging to meet the obligations in case of default
Debit - debts recorded
Debts - that which is owed
Default - failure to pay a debt or meet an obligation
Demand - an order to comply with an obligation
Depreciation - a decrease in value through age, wear or deterioration
Economic - pertaining to money or financial matters
Embezzlement - to steal or take by fraud another's property for one's own use
Enterprise - a business firm or a business undertaking
Entrepreneur - a person who organizes and manages a business
Equity capital - venture money
Factors - (1) something which contributes to a result, (2) a finance company specializing in high risk loans (usually at high interest rates)
Financial statement - a record of total assets and liabilities
Financing - obtaining money resources
Fixed expenses - those costs which do not vary from one period to the next
Franchise (franchisor, franchisee) - a right or privilege to deal in a certain line or brand of goods and services
Functional - performing a function or carrying out a characteristic action
Gross - overall total before deductions
Income - money coming in
Industry ratio - the standard or ''average'' percentage of expenses spent by firms in a similar type of business, i.e. firms in the same industry
Interest - the cost of borrowing money

Inventory - a list of present or current assets
Invest - lay out money for any purpose from which a profit is expected
Lease - a long term rental agreement
Liability - debts or that which is owed
Liability insurance - risk protection for accidents for which a business is liable
Limited partnership - a legal partnership where some owners are allowed to assume responsibility only up to the amount invested
Line position - a place of authority in a ''line'' organization
Liquidate - to settle a debt or to convert to cash
Loan - money lent at interest
Management - the art of conducting and supervising a business
Marketing - all the functions involved in purchasing and selling
Merchandise - goods bought and sold in a business
Motivation - strong influence or incentive
Net - what is left after deducting all charges
Nonrecurring - one time; not repeating
Objective - something toward which effort is directed; something to accomplish
Obsolescense - declined in value because of replacement by new and/or better things
Operating costs - expenditures arising out of current business activities
Operating organization - the plan for doing business
Operating ratios - the relationship of costs from business activities
Organize - to put in order
Owner manager - one who operates his/her own business
Ownership organization - the legal structure for a business
Partnership - a legal business relationship where individuals share responsibilities, resources and profits
Payable - ready to be paid
Personnel - persons collectively in the employ of a business
Pledge - to bind by a promise, to give possession of something of value as security on a loan
Posting - to enter in an account
Pricing to set a value upon something
Principal - property or capital assets as opposed to income; also, one who is directly concerned in a business enterprise
Profit - financial gain; returns over expenditures
Profit and loss statement - a list of the total amount of sales less expenses and costs to show the amount of ''profit or loss'' for doing business
Profit margin - an allowance above expenditures in a price
Proprietorship - subject to exclusive ownership
Ratio - the relationship of one thing to another
Receivable - ready for payment
Regulations - rules or laws (affecting a business)
Reserve - that which is held back or stored for future use or in case of emergency
Retail - selling directly to the consumer
Recured - protected or guaranteed
Service business - a retail business which deals in activities for the benefit of others
Share - one of the equal parts into which the ownership of a corporation is divided
Site - a plot of ground set aside for a particular use
Stabilizing - to make stable; to be less subject to ups and downs
Statistics - a collection of accurate numerical data; classified facts which can be stated in numbers
Stock - an ownership share in a corporation (another word for share); accumulated merchandise
Tangible - something that is real
Trade credit - permission to buy from suppliers on open account
Transfer - to remove from one place to another or from one person to another
Volume - an amount or quantity (of business)
Wholesale - selling for resale

Ma



Marketing 1

Marketing Research

When you begin to think about opening a business, one of the first questions you need to ask yourself is: Is there a market for my product or service and it it big enough to support my business? This is a question you need to be able to answer in order to make your decision about whether or not to start the kind of business you have in mind. If your choice is to go ahead, the information you have collected will help you plan the development and growth of your business. The answer to this important question is also a part of your business plan. You'll need to present accurate, adequate, and current information about the market for your business in your business plan to convince bank loan officers and investors that your proposed business is a good risk.

The marketing research section of this LAP will help you determine exactly what it is you are offering and to whom you will be selling your product or service. It will show you how to estimate the size of your market and how to assess your competition. Once you have collected this basic information, you will move on to the second section of the LAP and develop your marketing plan.

When you have completed the marketing research section of this LAP, you will be able to:

1. Define your product or service and list its advantages and disadvantages in comparison to similar products or services that are already offered by other businesses.
2. List at least six characteristics of your future customers and specify the group of customers that you will try to attract to your business first.
3. Estimate the size of your market.
4. Complete a competitive analysis.
5. Identify at least five sources of marketing research information.

Before your next class: Review the materials included in the LAP. Read the three fact sheets, "Introduction to Marketing Research", "Know Your Competition", and "Marketing Research Information Sources", and the Small Marketers Aid No. 114, "Pleasing your boss, the customer".

ACTIVITIES

The activities listed below are designed to guide your learning about marketing research. If you follow them, step by step, you should be able to meet the five goals of the marketing research section by the time you are finished.

1. Attend a class presentation on marketing research and participate in the question and answer period with the guest speaker.

On your own...

2. Write a description of your business using the "Business Description Guidelines" form and the section on Your Business Idea in the "Introduction to Marketing Research" fact sheet. If you do not have a specific idea about the kind of business you would like to start, choose an idea for a business that seems interesting to you. Use this idea to write your description and to complete the exercises in this LAP.

3. Evaluate your business idea using the "Business Idea Evaluation" worksheet. Ask at least two other people to evaluate your idea using the exercise outlined in the worksheet.

4. Describe the market for your business by completing the worksheet on "Your Future Customers." The Customer Profile and Market Segmentation readings in the "Introduction to Marketing Research" fact sheet will help you complete this activity.

5. Complete the "Market Size" worksheet. The section on Estimating Your Market in the "Introduction to Marketing Research" fact sheet and the fact sheet on "Marketing Research Information Sources" will be useful references.

6. Assess the competition your business will have by completing the "Competitive Analysis" worksheet. The fact sheet titled "Know Your Competition" is a useful guide in filling in this worksheet.

7. Share your market research findings in small in-class discussion groups:
   a. explain your business idea
   b. would you go ahead and start a business based on the idea you used for the exercises?
   c. what changes in the idea you began with would improve your business' chances of success?

MATERIALS

The forms that should be included in your package of materials are:

Fact Sheets:
Introduction to Marketing Research
Know Your Competition
Marketing Research Information Sources

D. Laws. Pleasing your boss, the customer. SBA: Small Marketers Aid No. 114.

Business Description Guidelines

Worksheets:
Business Idea Evaluation
Your Future Customers
Market Size
Competitive Analysis

Optional Reading

Bank of America. Marketing new product ideas. Small Business Reporter, 10 (5) 1974. This booklet is particularly geared toward independent inventors, and product innovators who want to introduce a new product to the market.

De Boer, L.M. Marketing research procedures. SBA: Small Business Bibliography No. 9, 1974. This bibliography lists and briefly describes a number of books, pamphlets, directories, associations, and magazines that are helpful in learning about and conducting marketing research.

Dutka, S. Using census data in small plant marketing. SBA: Management Aids for Small Manufacturers No. 187, 1974. Reviews kinds of available census data that might be useful to you and examples of ways you can use this data. It stresses consumer and industrial products but is generally useful.

Elton, R.W. How trade associations help small business. SBA: Management Aids for Small Manufacturers No. 32, 1961. The more important services that trade associations provide for small businesses are outlined in this leaflet and membership costs are briefly discussed.

Gulick, J.E. Profile your customers to expand industrial sales. SBA: Management Aids for Small Manufacturers No. 192, 1971. The guidelines presented in this pamphlet apply to all types of businesses. The emphasis is, however, on improving sales of an existing business rather than on breaking into a market.

Haerr, A.R. Marketing planning guidelines. SBA: Management Aids for Small Manufacturers No. 194, 1976. This pamphlet focuses on marketing planning and presents guidelines for developing a plan.

U.S. Department of Commerce. Social and Economic Statistics Administration. Bureau of the Census. Mini-Guide to the 1972 Economic Census, 1973. This booklet includes an introduction to the various economic censuses and related government programs and a reference guide to the 1972 Economic Censuses. It focuses especially on data collected for individual censuses and on the Department's publication program.

All of these publications are available free of charge with the exception of census guide which costs $1.00 and is available from the Publications Distribution Section, Publications Services Division, Social and Economic Statistics Administration, Washington, D.C. 20233. References to other publications that provide marketing information are included in these readings.

INTRODUCTION TO MARKETING RESEARCH

Marketing research allows you to evaluate your business idea and estimate its promise of being translated into a successful business. It also provides you with information you need to make decisions about how to sell your product or service to customers.

Marketing is an on-going process. The marketing research you conduct before starting your business will teach you techniques and approaches that you will continue to use after your business is in operation. In order to keep your business growing and profitable, you have to continue to monitor your market, trying new ideas, making changes in your products or services, and/or refocusing your business.

Every product has a life cycle. The market for your initial product or service will reach a peak of profitability and, sooner or later, it will decline. As new products are introduced or competitors set up, you have to be ready for these changes or your business won't survive. Marketing research is the tool you need to keep on top of trends and changes that affect the market for your business.

Your business idea.

Your business idea is the basis upon which you build your business. A sound and worthy idea--particularly one that is innovative--is the source of business success. You need to define your business idea as exactly as you possibly can. This definition will help you decide who your market is, who it consists of, and who your competitors are. To say that you plan to open a retail clothing store, for example, is not an adequate definition of your business idea. You need to specify the types of clothes you will carry and the customers you hope to attract. Your definition then might be that you plan to open a retail clothing store that will carry expensive, imported European and custom-made to your specifications clothing (sportswear, school and dress clothes) for children up to the age of twelve years. Your regular customers will be people with high incomes--parents or relatives of these children. You should also specify any special aspects or angles of your business. For example, there will be a seamstress available who can make any necessary alterations immediately or there will be a special play corner with books and toys so that the children can play while their parents are shopping.

If you don't have a specific idea yet about the kind of business you want to start, do some careful thinking. You should consider:

1) Your skills, abilities, talents. Many entrepreneurs start their business using the skills and knowledge from their past jobs to develop a specialized business. What skills and knowledge can you draw upon? How could you develop your personal interests and talents or hobbies into a business? What are your special skills and strengths that you could use as the basis for a business?

2) Your experiences and those of people you know in looking for and using products and services. What do people need or want that isn't available? Why isn't there a _______ in this community? Why hasn't anyone developed a

_________? What are the inefficiencies or problems in the products and services people are currently using?

3) Other or new uses for ordinary things. There are no limits so think up as many ideas as you possibly can. Enlist your friends and have a brainstorming session. Once you have a list of ideas, you can begin to carefully evaluate each one.

When you begin evaluating your ideas, be objective. If you fall in love with your business idea, you won't be able to honestly evaluate it and you're likely to end up as a statistic on business failures. Try to define your business from the customer's point-of-view. Why would that individual or business come to you? What are the tangible--a more durable product, faster delivery--and intangible--prestige, a pleasant atmosphere--benefits that the customer would receive from your business? What are the disadvantages--higher prices, a limited choice of products, no service department--your customer will see in your business? A clear understanding of the advantages and disadvantages of your business from the customers' perspective, will help you see where changes may be needed and how you can best sell your business to its future clients.

In describing your business, it's important to determine what it is you really are offering your customers. Are you selling $10 cheesecakes or a very pleasurable eating experience with prestige overtones? Kentucky Fried Chicken is not selling chicken, they are selling, image, convenience, economy, and nutrition. What are you really selling?

Effects of outside forces on your business idea.

You need to think about your business in terms of the larger environment it must survive in. What are the larger trends and how will they affect your business? Are you proposing to offer a finished product to people at a time when everyone wants to do it themselves. Instead of selling quilts you've made, you should be selling packaged instructions and materials or offering classes. Are you going to open a beauty shop that specializes in styling long straight hair at a time when fashion magazines are pushing a short, curly boyish look that is beginning to catch on? What are the big concerns and issues of the day? If everyone is worried about crime and security, a market is developing for products and services that may not be available. Become a trend watcher and anticipate needs and demands for products and services.

Look at the economic situation. You don't open a catering business in a community where the local economy is based on aerospace industry and the government is seriously considering canceling their contract. High inflation will immediately affect your business if you make or sell clothes for women with moderate incomes though it may not influence your business at all if your market is women with very high incomes.

You need to be aware of political and legal considerations. Are you about to start manufacturing throw away cans while the state legislature is considering a law outlawing your product? Does your business depend on a ready and cheap supply of imported Japanese transistors when there's a movement to impose an import quota on them?

What technological changes will affect your business? Are you setting up an answering service just as a new automatic, highly sophisticated, inexpensive message machine that can be attached to a phone is about to be put on the market? Will the machinery you need to purchase for your business be outdated in six months because a technological break-through has just been made and the industry will be radically changed? If so, put in an order for the new machines and postpone your start-up so that your's can be one of the first businesses to offer the new and improved products or services.

If you are aware and sensitive to these trends and patterns, you can make the changes in your business that will keep it in line with the needs and demands of your customers.

Customer profile.

Once you have defined your business idea, you need to identify the characteristics of the population you will serve. This information will help you determine how to package, present, promote, and price your product or service. To develop a profile of your customers you need to answer the following questions:

1) Who buys?
   Age?
   Sex?
   Income?
   Ethnic group?
   Education level?
   Occupation?
   Location--city, rural, neighborhood, statewide, national?
   Marital status?
   Family size?

Be careful, especially about the age and income groups, in defining who will do business with you. You don't want to exclude potential buyers. The conservative businessmen who only wear white shirts may be ready to change their wardrobe and their image.

2) What does my future customer buy now?

3) How does she/he prefer to buy? Are they impulse buyers, do they like to shop around, or would they prefer to place a standing order? Do they prefer to pay in cash or by check or credit card or do they want to be able to pay in installments?

4) Where does she/he buy?
   For example, does she buy her cosmetics from a particular kind of retail store, from a door-to-door salesperson, or does she send away for them?

5) When does she/he buy and how often?
   Does my customer prefer to buy in the evening, on weekends, during week days?
   Does she/he buy my product or service frequently on a regular basis or is it a seasonal or occasional purchase?
   Will this buying pattern be affected by economic changes?

Once this profile is drawn up, compare it to your business idea and your perceptions of trends. Why will these customers use your business?

Estimating your market.

Now that you know who your customers are, you need to look at your market area and estimate your potential market. With this information and an assessment of your competition, you'll be able to decide if there is an adequate market to support your business. It will also give you the information you'll need to begin to estimate the total sales or purchases your business can expect. This estimate of market size can be easy or difficult depending on the nature of the business and its market.

There are several steps to the process:

1) Define the "buying unit", that is, exactly who your customer is. Is it families with preschool children, anyone who owns a car, grocery stores and restaurants, discount chain stores, catalog companies? Your customer profile will help you answer this question.

2) How many of these buying units exist in the area in which you plan to do business? Refer to the "List of Marketing Information Sources" for suggestions on how to get this information.

3) When you know approximately how many buying units there are, you need to try to determine how much they spend, on an average in a year, for your product or service. How easy or difficult it is to get this estimate depends on your business, your trading area, and your buying unit. You can use government or trade association figures or you can talk to customers, people in similar businesses, or suppliers.

4) Using the number of buying units and their average annual purchases, you can estimate the total annual purchases in your market area. This then gives you a sense of the field of opportunity open to you.

In considering the potential market for your business, you need to think about the trend of purchases. If there is a clear trend over several years, it may help you make your decision about whether or not to go ahead with your business.

Market segmentation.

Lack of market segmentation is a frequent cause of business failure. You can't go after the whole market for your product or service; you need to focus on your core market. Segmenting, or dividing your market into logical groups of customers, helps you to spot market opportunities, identify response differences, and understand how to design your marketing strategies. There are three criteria for segmentation:

1) measurability: can you quantify your potential market?

2) adequate size: is the market large enough to make the work and time you put into attracting them to your business worthwhile?

3) accessibility: can you reach this market through promotion and distribution?

This last question tends to be the problem for small businesses.

Select the segment of the market you want to focus on. You might select the segment by location (nearness to your business), age, family size, or need for your product or service. You may want to refer to your customer profile and select a particular group to focus your efforts on. Which group should you set out to attract to your business first. Which segment shows the greatest sales and profit potential? What has the most growth potential? That is, which one, given the right conditions, is likely to increase the most. Which has the greatest need for your type of business? Think about where you will find them and how you might reach them.

Review.

Look over your marketing research findings and reevaluate your business idea. Do you need to redesign or change your initial business idea? Does there seem to be an adequate market for your business?

KNOW YOUR COMPETITION

Until you have taken a good look at the competition your business will face, you won't know whether your business has a good chance at attracting a share of the market or what it will have to offer its customers to get their business. If you don't think you have any competitors, look again. Except in the case of brand new products or services, you can almost always find competitors in the market. There may not be a cosmetics boutique in your community, but drugstores, department stores, and beauty shops all may carry cosmetics. If there is no competition, the other possibility is that there really is no opportunity to succeed. As an extreme example, if no business carries cosmetics, you may discover that the women in the community don't wear cosmetics because they belong to a religion which forbids their use. Their may be no Indian restaurant because the community is predominantly Swedish and, although they might occasionally come to an Indian restaurant, there wouldn't be enough regular customers to keep the business open.

In assessing your competition, the first step is to decide who your competitors are. How many other businesses in the trading area you have chosen are trying to satisfy or create the same needs you are? Remember that these may not be the same type of business as yours, nor do they have to offer identical products or services. Your take-out Chinese food business is in competition with all kinds of restaurants and fast food services in the community, including the deli section of the local food store. However, your true competitors are the businesses or individuals who are trying to attract the same customers you are. The night club where dinner and an evening's entertainment start at $50 a couple is not a competitor for your Chinese food take-out business.

Step two is to decide who the top or main competitors are and, if possible, what their approximate share of the market is. These successful businesses have set the standard and, if your business is to survive and grow in the market, it will have to meet or exceed the standards these competitors have set. You can't open a printing service that charges the same rates and has the same turnover time but has a more limited selection of type face and paper than the printing service that everyone is currently using and expect to succeed.

Once you have identified your key competitors, you need to examine their marketing operation very closely. Why are they successful? The competitive analysis worksheet provides a guide to the kind of details you need to consider in looking at your competitors. The reason you want to do this is to make sure that you think about all the things you will have to do to attract, sell, and hold onto customers for your business. Your main competitor(s) may not be perfect, but they are obviously doing better than anyone else in the market. To the extent that you can meet or beat what she or he is doing, your chances of success increase.

Finally, you need to decide which characteristics that have contributed to the success of your competitors you can't beat (for example, the personal influence of the owner), which you can duplicate by doing the same thing just as well or offset by doing something else better, and which you might be able to beat (if he delivers within a five mile radius, you could deliver within a 10 mile radius).

Be careful and objective in assessing your competition. It probably will make opening your business seem like much harder work than you had thought it would be, but it will help you learn what you need to do in order to compete successfully.

MARKETING RESEARCH INFORMATION SOURCES

In order to learn about the market for your business, you will need to collect information to answer key questions. There are people you can talk to directly; associations, organizations, and government agencies that can help you find the information you need; and there are many different kinds of publications that are useful sources of marketing information.

Owners, Employees, and Customers of existing businesses. Visit the kind of business you are considering starting or a similar business. Talk with the owner, the employees, and the customers; each group can provide useful information and each has a somewhat different perspective on the business. You can learn a great deal about your future market, especially the information you need to develop a customer profile. Then look very carefully and critically at what you have learned: how is this business doing? Why? What could be done to improve it? What customer needs are not being met? Once you have your own business, remember that your employees and customers are one of the best sources of information about your business that is available to you.

Suppliers. Talk to the people who would supply the materials or products needed in your future business. They sell to other businesses like the one you plan to open and they can tell you a great deal about the problems other businesses have run into, the needs that aren't being met, and the market demand for your product or service. Since their business depends on their customers' business and you are a potential customer, it's to their advantage to give you the information and hints that will help you start a successful venture.

Prospective Customers. In addition to talking to customers you happen to meet on your visit to a business, get in touch with people you hope to attract to your business. Find out what they want but aren't getting from the businesses they use now. Ask them what they would want from your business and what would make them choose your business over its competitors--faster service? more choice? convenient location? or a wider price range?

There are several ways you can reach your future customers and both your choice of a method and the number of individuals you contact will depend on the type of business you plan to open and the kind of information you need to collect. You can talk directly to people you know or meet or conduct a survey by mailing questionnaires or telephoning people to ask a brief series of questions.

Bankers. Bankers, particularly loan officers, are very much aware of what's going on in the business community their bank serves. They will know which businesses are succeeding and which are not and they probably have a good sense about the reasons for success or failure. Loan officers won't be your most enthusiastic supporters and they may not be willing to lend you money, but they can assess your business plan in regard to the needs of the community and the histories of other businesses. You should consider their comments and advice, since they could give you good ideas about how to strengthen and improve your plan.

Newspapers. Local community newspaper personnel know their community. They can offer useful information and suggestions. You want to start developing a relationship with them early so your business opening will be publicized.

They hope to do business with you once you're in business and advertising so they have reason to try to answer your questions.

If you live in a city where a major newspaper serves the metropolitan area, you will probably find that this paper has a marketing research department to serve its advertising clientele. Once you have a clearly developed business idea and some specific questions about the area where you plan to open your business, make an appointment to use their information.

Chambers of Commerce. These organizations have as their goal the growth and economic development of the community. They can provide you with information about the economic climate in the community as well as specific information on taxes and licenses. They can sell you their membership list, if you plan to conduct a market survey or advertise by mail, and they also have a list of the manufacturers in the area for sale. They are a source of technical assistance; if you have a problem with parking or getting licenses, for example, they will help you work these problems out with the city or town government. Once you are in business and if you join the Chamber, they are a source of publicity. People who call the Chamber for advice on where to do business are referred to organization members.

Trade and Business Associations. There are over 5,000 associations in the country and there is sure to be one that can help you in your kind of business. Trade associations often compile monthly, quarterly, and annual statistics on topics such as consumption, production, and inventory of products. They can also provide basic information on standards, rates, and competitive situations. Some associations offer advisory assistance on technical or operating problems.

Trade journals and magazines can help keep you in touch with the trends and innovations in your business field. On a broader scale, Sales Management, Inc. publishes Survey of Buying Power which gives the population, income, and retail sales of U.S. markets nationally and broken down by region of the country, state, county-city area, and metropolitan area. These figures can be used to estimate the average annual purchases for your business.

The Encyclopedia of Associations (Detroit: Gale Press) gives detailed information about non-profit American membership organizations that are national in scope. The National Trades and Professional Associations of the United States and Canada (Washington, D.C.: Columbia Books) is published annually. One or both should be available at your library and will help you identify associations that can help you. The Bank of America series of Small Business Reporters that focus on specific types of businesses include listings of relevant trade associations.

Department of Commerce. Bureau of the Census. The Department of Commerce has a national office in Washington, D.C., and regional and district offices in cities around the country. Their publications are also available in depository libraries located around the U.S. and your instructor should be able to refer you to the nearest source of information. If she/he is not able to, write or call (202/377-2000) the national office in Washington.

The Census of Population can provide very useful information. Census reports are available for every city and town. For cities of more than 50,000, the information is also broken down by census tract (a small area, often several blocks, with a population of 4-5,000). Most of this information is based on the U.S. Census that is taken every 10 years and toward the end of a decade it becomes dated. Nonetheless, it does offer a relative measurement among areas. This data will help you answer questions such as:

- How many persons or families are there in the trading area and how has this changed over time?
- Where do they work?
- How many young or old persons are there, how many children or teenagers?
- How many families with small children or with teenagers?
- How many one-person households, how many small or large families?
- What is the income of the families or individuals?
- What do they do for a living?
- Is the area an older established one or one where most residents are newcomers?
- How many families own their homes? How many rent?
- What is the age and quality of the homes?
- Do the homes have air conditioning; other appliances?
- How many of the families own an automobile? How many own two or more?

Depending on your type of business and the kind of information you need, you may want to consult some other Department of Commerce Publications. The Mini-Guide to the 1972 Economic Censuses and the SBA pamphlet by Dutka included in the optional readings list provide an overview of many of the available census reports and ways in which you can use the information they provide. Business Conditions Digest, a monthly report on business conditions, is also published by the Bureau of the Census. The Bureau of the Census Catalog is available from the Superintendent of Documents, Washington, D.C. 20402.

Public Libraries. Much of the information you will need can be tracked down at your local library. Talk to the reference librarian about your information needs. The library probably has Small Business Administration publications, the Bank of America Small Business Reporter series, guides to trade associations and possibly some trade magazines, Dun & Bradstreet credit reports on small businesses, and many other publications that will help you learn more about your market and the general economic and social trends that will affect your market.

BUSINESS DESCRIPTION GUIDELINES

Ma4

Describe your future business in as much detail as possible. Include all the sidelines or angles to your basic product or service that you plan to make a part of your business. Describe your business objectively.

In writing your description, consider the following questions:

1. What service(s) or product(s) do I offer?

2. What need does my business fill?

3. If it does not fill an obvious need, can a need or demand for this product or service be created?

4. What sets my business apart from other similar businesses?

   What will I do better, differently, or more of than my competitors?

   How is my product or service different from what they offer?

5. What is it about my business that will attract customers?

6. What am I really offering my customers?

7. Is the business I plan to open timely?

   Why?

50

BUSINESS IDEA EVALUATION

A useful way to approach marketing is to use the idea that people's behavior is determined by its consequences. If you know onions make you ill, you aren't likely to order a hamburger with onions. If the salesperson at a business is rude to you or if its products are priced much higher than those of similar businesses, you probably will use another business.

Think of a business you use frequently and list the major reasons you do business there.

Think of a business you have gone to in the past but no longer use and list your reasons for not doing business there.

Take a sheet of paper and divide it in half. On one side write "advantages" and on the other side write "disadvantages". Think about your business idea and list all of the positive and negative consequences of using your business that you can think of. What will attract customers to your business and what will keep them from using it?

Describe your business idea to friends and ask them to rate its advantages and disadvantages in the same way. The information you collect will help you decide how you might want to modify your idea. It may give you new ideas about customer needs you have overlooked or about how you should focus your marketing campaign. It will help you later when you need to decide how to price and advertise your product(s) or service.

YOUR FUTURE CUSTOMERS

Describe your market by listing the groups of potential customers who might use your business. The description you write should be brief, but the groups should be clearly different from one another. Some of the characteristics you might want to consider in describing your groups of customers are:

If customers are individuals	If customers are businesses
sex	size of business
age	location
income	type of business
occupation	importance of your product or service to their business
location	
marital status	
family size	
special interests	
ethnic group	
education	
need for your product/service	

1. My groups of customers are:

2. Now write beside each group your estimation of its relative size compared to the other groups: Is it small, medium or large?

3. Think about the sales and profit potential of each group. Consider the number of potential customers in each group and their buying power. Rank the groups according to their sales and profit potential.

4. Think about the growth potential of each group. Which groups are growing in number and are demanding more of your product or service? Consider how growth trends are affecting your groups and rank them in order of their growth potential.

5. Think about the degree of need for your product or service. Consider the way members of these groups currently satisfy their need for the product or service you intend to offer. Rank order the groups according to their need for your business' product(s) or service(s).

6. Now consider the sales and profit potential, the growth potential, and the degree of need of each group. Rank order them according to which you should try to concentrate on reaching via your marketing efforts. Which group should you try to attract to your business first, second, etc.?

This is the way in which you segment your market. You will want to repeat this exercise again when you are certain about your business idea and have time to research the size of each group or segment, its growth trends, and its need for your product or service. A final and important consideration is how easily you can reach the various segments and how costly this process will be. Once you have looked into this, you may need to reorder your groups a final time.

MARKET SIZE

For each question below list either the answer to the question or:
a) the information source(s) you could use to find the answer
b) where you could locate these information sources
c) how reliable (high, average, or low) the information you would get from each source would be

1. What is your "buying unit"?
(examples: individual consumer, family, retail store, retail group, manufacturing company)

2. Approximately how many of these buying units exist in the trading area you have defined for your business?

3. Approximately how many dollars does each buying unit spend each year on the products or services you plan to offer?

When you multiply the number of buying units (the answer to question 2) by the dollars each unit spends per year (the answer to question 3), you will have a ballpark estimate of the market for your business. To improve on this estimate you will need to consider two things:

1) the competition. The competitive analysis worksheet will help you determine how much of this estimated market is really available to your business; that is, what percentage of this total market can you actually reach and get to use your business.

2) the trend in buying. In the past few years have people been buying more/less/approximately the same of your type of products or services? If there is a clear trend, you'll want to know why so that you can figure out how the trend will affect your market. If fewer people are using the restaurants in your community each year, is it because there are no good restaurants or because people can't afford the prices these restaurants are charging or because they find fast-food, take out businesses more convenient?

COMPETITIVE ANALYSIS

Ma8

To assess your competition, answer the following questions about the competition your proposed business would have to deal with.

1. Approximately how many competitors are there in the trading area? (You need to include all businesses offering identical or substitute products or services.)

2. Who are top competitors, if any?

3. Which of the following characteristics contribute to the success of these top competitors? (check all that apply)

_____ Product/service uniqueness

_____ Product/service superiority

_____ Range, variety of products/services

_____ Pricing practices

_____ Cost/purchasing advantages

_____ Business location

_____ External appearance

_____ Internal appearance--merchandising

_____ Floor space

_____ Land

_____ Equipment and/or machinery

_____ Credit

_____ Delivery

_____ Other convenience services

_____ Promotional practices

_____ Quantity and/or quality of advertising

_____ Personal selling

_____ Quantity and/or quality of personnel

_____ Trade/public image or recognition

_____ Reputation and/or influence of owner or other key personnel

_____ Other important marketing advantages (describe them)______________________

____

4. If you had as much money as you needed, how many of these competitive characteristics could you match or improve upon?

   a. Which characteristics could not be duplicated or offset?

   b. Which characteristics could you duplicate or offset?

   c. Which characteristics can you improve upon?

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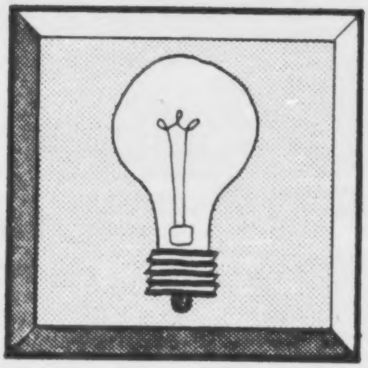
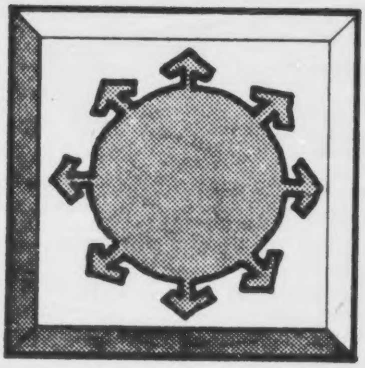
Mp





Marketing 2

Marketing Plan

Aggressive and intelligent marketing determines the sales upon which the survival of your business depends. Now that you have gathered the basic information about the market for your future business, you are ready to develop a marketing plan. You need to make decisions about:

a) how you will sell your products or services;
b) the exact location of your business;
c) the number of employees you will need and, if your employees are to go out and cover a sales territory, how you will deploy them;
d) pricing your products or services;
e) customer services you will offer; and
f) the advertising and promotion program you will use to announce and support your business.

In making each of these decisions, you will need to consider and choose between several alternatives. Always keep in mind your particular product or service, your future customers, and your financial situation when you make your decisions. Marketing methods that work for other businesses may not suit your situation or purposes. This is an important stage in the development of your business and the choices you make may be crucial to the success of your business.

When you have completed the marketing plan LAP, you will be able to:

1. Explain at least three alternative channels of distribution for a product and name three factors you would want to consider in planning a distribution strategy.

2. List two situations in which you would want to charge high prices and two situations in which you would want to charge low prices.

3. List five things you would consider in selecting a location for your business.

4. Outline the customer services your business would offer its clients and explain why you have decided to offer these services.

5. Select three promotional methods to use in your business and explain your reasons for choosing them.

Before your next class: Review the materials included in the LAP. Read the five fact sheets--"Distribution", "Selecting Prices", "Customer Services", and "Promoting your Business"--and the two Small Marketers Aids (numbers 124 and 121), "Knowing your image" and "Measuring the results of advertising".

Marketing Plan
ACTIVITIES

The activities listed below are designed to guide your learning about developing a marketing plan. If you follow them, step by step, you should be able to meet the five goals of the marketing plan LAP by the time you are finished.

1. Attend a class presentation on developing a marketing plan and participate in the question and answer period with the guest speaker. The presentation will cover the key parts in a marketing plan.

On your own...

2. Using the same business idea you developed in the Marketing Research LAP, complete the "Business Location" worksheet. The fact sheet on "Selecting your Business Location" and the information you developed in the Marketing Research LAP will be useful in filling out this worksheet.

3. Complete the "Pricing" worksheet. Keep in mind the information in the fact sheet on "Setting Prices".

4. Outline the services your business will offer by completing the "Customer Services" worksheet. The "Customer Services" fact sheet will help make these decisions.

5. Consider the promotional choices for your business idea by completing the "Promotional Alternatives" worksheet. The fact sheet on "Promoting Your Business" and the SBA pamphlet by Sorbet are good references to use for this activity.

6. Take part in a small group exercise on marketing. Your instructor will tell you about a product and each group will have half an hour in which to develop an advertising and sales campaign for it. Your campaign should include:
    a) selection of target markets;
    b) choice of the proper media to reach the target markets;
    c) an awareness of advertising costs;
    d) consideration of alternative means of promotion;
    e) the creation of a good advertisement.

   Your group will then have five minutes to present your campaign to the entire class.

MATERIALS

The forms that should be included in your package of materials are:

Fact Sheets:
Distribution
Selecting Your Business Location
Setting Prices
Customer Services
Promoting Your Business

R.D. Blackwell. Knowing your image. SBA: Small Marketers Aid No. 124.
E.M. Sorbet. Measuring the results of advertising. SBA: Small Marketers Aid No. 121.

Worksheets:
Business Location
Pricing
Customer Services
Promotional Alternatives

Optional Reading

The publications listed below all deal with some aspect of marketing. The type of business you plan to open and your need for more information on certain topics will determine which ones you will want to read. The brief description after each title should help you decide which ones would be useful to you.

Bank of America. Advertising small business. Small Business Reporter, 13 (8), 1976. An excellent and comprehensive guide to use in developing an advertising program. Useful in any type of business.

Blake, W.H. Retail credit and collections. SBA: Small Business Bibliography No. 31, 1974. A useful overview of retail credit that can help you decide on credit arrangements for your business. It includes a listing of books and other publications that provide information on the subject of retail credit and collection.

Elliott, C.B. Pointers on display lighting. SBA: Small Marketers Aid No. 125, 1972. A discussion of interest to retailers on how to make the best use of display lighting.

Konopa, L.J. Are your products and channels producing sales? SBA: Management Aid for Small Manufacturers No. 203, 1974. Useful for a manufacturer or distributor of products whose business is in operation. It discusses the need to keep your sales efforts on target and explains how to examine your products and channels of distribution for strengths and weaknesses.

Kress, G. and Will, R.T. Marketing checklist for small retailers. SBA: Small Marketers Aid No. 156, 1974. The questions on "customer analysis", "pricing", and "promotion" (pp. 2-6) are worth considering. The checklist provides a good review before you go into business.

Levy, S.G. Building repeat retail business. SBA: *Small Marketers Aid No. 108*, 1975. Highly recommended for small retail or service business owners. It discusses the reasons people repeatly use a business and ways to encourage customers to return.

Lowry, J.R. Using a traffic study to select a retail site. SBA: *Small Marketers Aid No. 152*, 1973. This booklet discusses factors you need to consider in selecting a location, how to make a traffic count, and how to use the traffic count information.

McKeever, J.R. Factors in considering a shopping center location. SBA: *Small Marketers Aid No. 143*, 1970. A discussion of what you should consider in making a decision about locating in a shopping center.

O'Brien, J.D. A pricing checklist for managers. SBA: *Small Marketers Aid No. 105*, 1975. A series of questions designed to help the manager of an operating business evaluate her/his pricing policies and practices.

Sevin, C.H. Analyzing your cost of marketing. SBA: *Management Aids for Small Manufacturers No. 85*, 1975. A discussion of how operating businesses can use their records to conduct marketing cost studies. These studies help you see how you can focus your marketing efforts so that you get the greatest return on your investment in marketing.

Business plan for Small Manufacturers. SBA: *Management Aid for Small Manufacturers No. 218,* 1973. This booklet is a guide to developing a business plan for a small manufacturing firm. If this is your business goal, you will probably want to get a copy of it. Pages 3-9 deal with marketing considerations.

Business plan for small service firms. SBA: *Small Marketers Aid No. 153*, 1973. A booklet designed to help the future owner-manager of a small service firm develop her/his business plan. Pages 4-9 cover marketing issues.

Business plan for retailers. SBA: *Small Marketers Aid No. 150*, 1972. A guide to follow in drawing up a business plan for a small retail firm. Pages 3-8 review the marketing section of the plan.

Valenti, G.M. Interior display: A way to increase sales. SBA: *Small Marketers Aid No. 111*, 1975. This pamphlet is useful for retail store owners. It discusses how to build an interior display that will attract customers to your business.

Wilsted, W.D. Pricing for small manufacturers. SBA: *Management Aids for Small Manufacturers No. 226*, 1976. This is a guide to pricing your products within the framework provided by the "price ceiling" which is determined by the market and the "price floor" which is set by your costs and desired profits.

Wright, J.S. and Goldstucker, J.L. Stimulating impulse buying for increased sales. SBA: *Small Marketers Aid No. 109*, 1975. A definition of impulse buying, a guide to selecting impulse items, and a discussion of ways to increase your sales by stimulating impulse buying.

All the SBA publications are available free of charge from SBA field offices or Washington headquarters. New editions of these publications appear regularly; the publication dates listed below are those of the most recent editions that were available when these LAPs were written.

DISTRIBUTION

Once you have conducted your marketing research--defined your business idea, chosen your trading area, and identified your buying unit--you need to decide how you will distribute your product or deliver your service. For a retail business, the decision is made: you'll be distributing products through your store. Any additional distribution-related options you may want to consider, such as pickup or delivery, are discussed in the fact sheet on "Customer Services". Service firms deal directly with their customers, whether they are individuals or other businesses. One distribution choice that service business owners make and that is closely tied to their choice of location is whether or not to start their business out of their home. A wholesaler's channel of distribution is defined by the nature of her business: she will distribute her products through retail stores. Likewise mail order businesses use mail delivery to reach their customers. The owner of a mail order firm does have several options to evaluate and select from in arranging for distribution of his product(s): surface mail versus air mail and the U.S. mails versus private services, like United Parcel Service(UPS).

Distribution is chiefly a concern for someone who has a product she wants to get to the target market she has selected. Manufacturers need to identify the different channels of distribution that exist and choose the one(s) that best fit their needs. Your choice of distribution channels is tied to the type of image you plan to develop for your business and affects the kind, quantity, and quality of the advertising and promotion program you select. There are trade-offs between the various distribution channels; each has advantages and disadvantages in terms of the trading area that can be covered, cost, the frequency of contact required, the quality of the way in which your product is represented, and your control over the distribution process.

For example, let's say you have developed a line of skin care products that you want to sell to women over fifty and you want to create an image of smallness and personal concern for the consumer. You may decide that the best way to reach your market and create this image is to employ other women to sell your products door-to-door. Unless, you start with a very large sales force, which would be very expensive, your trading area will be of limited size. You'll need to keep in close touch with your sales people which will take time, but you can also control the distribution process and know that your product is being represented and sold as you want it to be. Your advertising and promotion program will probably involve free samples of your product, introductory and special offers, and a catalog, leaflets, and brochures that your sales representatives can distribute to customers and potential customers.

The alternative channels of distribution are:

- manufacturer ⟶ consumer (door-to-door, mail order)
- manufacturer ⟶ retailer ⟶ consumer
- manufacturer ⟶ wholesaler ⟶ retailer ⟶ consumer
- jobbers, manufacturers' representatives

In addition to choosing one or more of these channels of distribution you may also want to consider different patterns of distribution.

Intensive distribution

If you want to use every way you can think of to achieve distribution in a limited geographic area or to a particular industry or group of companies, you're talking about intensive distribution. For example, if you wanted to contact every beauty shop in the city about carrying your skin care products or you decided to try to sell them through all possible retail outlets--department stores, beauty shops, drugstores, discount stores, and women's boutiques--in a part of the city, you would be considering intensive distribution. While this approach to distribution should result in widespread coverage of the market, it requires large expenditures of time and money.

Exclusive distribution

If you want to establish protected territories for your distributors or to sell your product only to or through certain kinds of distributors or outlets, you're considering exclusive distribution. Franchises, giving a wholesaler or jobber the exclusive right to distribute your product in a given geographic area, or permitting your product only to be sold through certain kinds of retail stores are examples of exclusive distribution. The idea behind this method is that, if your distributor has few competitors, he'll put more attention and effort into distributing your product. The problem is that you can't really be sure that he will and, if he doesn't, your sales will suffer.

Selective distribution

If you want to find a middle ground between intensive and exclusive distribution so that there are enough of certain kinds of distributing companies and individuals to achieve reasonable coverage but not so many that the distributors won't push the product, you're considering selective distribution. For example, you might want to distribute your skin care products through drug wholesalers, drugstore chains, and beauty parlors. No one has the exclusive rights to your products, but everyone has something to gain by selling your products.

Making your Decision

In choosing between distribution alternatives, you'll want to consider:

1. sales and profit
   Which method(s) will result in the greatest sales at the least cost to you?

2. control
   How much control do you want to have over what is sold, at what prices, in what ways, and under what circumstances? If you choose to hire your own salesforce or develop franchises, you'll have maximum control over these things. On the other hand, if you want to use any and all means of distribution or you decide to use large organizations to distribute your product because you believe this will increase your sales, you will have little control over who sells your product, how it is sold and at what prices.

3. your marketing objectives

If you are trying to get a new product introduced, you'll want a distributor who is committed to it and dependent on its success. You might want to visit retail stores yourself, hire some salespeople, or deal with a new small chain of retail stores. However, if your product is established and your marketing goal is to dominate the market, you'll probably want to distribute it through organizations of maximum size and strength.

Choose a method of distribution that fits your present situation. As your business grows, new or additional channels and methods of distribution may become appropriate or necessary. Assess the effects changes in distribution methods will have on your business before you make them and remember the advantages, disadvantages, and risks involved in each alternative method.

SELECTING YOUR BUSINESS LOCATION

Choosing the location for your business is an important decision. You might have a great business idea, but if you open at a site where no one can find you, your business won't have much of a chance. What you look for in choosing a site depends on the type of business you plan to open, the kind of products or services you are going to offer, and the customers you want to attract.

You'll want to locate where you are accessible to your customers, yet within your budget. The best way to start is by outlining what you need in a business site. Consider your future needs as well as your start-up requirements; moving is expensive and you want to choose a site you won't grow out of in six months. Once you have outlined your needs, look around for the site that comes closest to meeting your requirements. Don't limit your search to checking newspaper ads or looking for vacancy signs; talk with friends and colleagues, bankers, and real estate agents. They may know of sites that will be available in the near future or offer suggestions that will help you focus your search on a specific area. You want the best location you can find, so be selective and don't let yourself be pressured into taking one of the first acceptable locations.

In outlining your needs and selecting your site, there are a number of factors that you will want to take into consideration:

1. Location of competitors and other businesses.

Given your business idea, what is the ideal location in terms of other businesses? In some types of businesses, customers prefer to comparison shop and you don't want to locate too far from your competitors. Other businesses attract customers by choosing a location close to a complimentary business. For example, drug stores often locate next to food stores for their customers' convenience. If your business depends on materials provided by another business, you don't want to locate too far from your supplier.

2. Traffic Patterns.

Look at the pedestrian and auto traffic that passes by sites you are considering. Watch the flow of traffic as well as the amount. If there is a lot of traffic past the site, but no one ever stops, all the foot traffic is on the other side of the street, or there is heavy traffic only at rush hours, you need to reconsider that location.

An area with good business traffic will have higher rents, but if it means more business, it's to your advantage to locate there. An area with "potential" may not realize its potential until after you're out of business.

3. Accessibility of the location.

Will customers be able to get to your business? Is there available parking? Look at the public transportation system if there is one. Who uses it and what does it cost? How good is the service, how often does it come, are there stops near the site you are considering? Can your customer get across the street to your business place? Poor sidewalks can discourage customers. If you plan to be open nights, make sure there is good street lighting and, if there is a nearby parking lot your customers will use, it should be well lit, too.

Check around and make sure the city hasn't scheduled street improvements that would cut off traffic in front of the site you are considering. Is there an alley with a loading area or some other means for suppliers to deliver at this location?

4. General condition of the building and cost of occupancy.

Consider the general condition and appearance of the building. Will it convey the image you want to establish and attract the customers you are aiming your marketing efforts at? How much time and money would have to be spend on repairs and alterations to adapt the space to your needs? Who would pay--you or the landlord?

Look at the layout of the space as well as the square footage. Is it a space that will work for your needs? Is their adequate display and storage space? If your business grows rapidly, will this space still be adequate or are there expansion possibilities?

Estimate the additional costs of occupancy. Be sure you include everything and don't underestimate. Add the costs of utilities (heat, water, electricity, etc.) and services (cleaning help, refuse collection, etc.) to your rent to get an estimate of what you will have to pay just to be open at the site each month.

5. Past history of the site.

Find out as much as you can about the history of the location. Has this space been vacant for a long time? Have businesses failed here in the past? If the answer to either question is "yes", do some research to learn why.

In most instances, it is unwise to locate next to a vacant building. If you are considering a site that has a vacant neighboring building, investigate the history of the empty building too. How long has it been vacant and what are the probabilities that it will be occupied before too long?

6. Labor supply and costs.

If your business requires employees, you will need to consider the availability of workers and the wages they will demand in choosing your location. This is primarily a concern of larger businesses (with a number of employees) that are deciding which state or which city or town within a state they want to select for their business location. Even with a business that has only a couple of employees, you'll want to think about your options. If you'd like to hire high school students or older persons part-time and both groups rely on public transportation, you'll want a location they can reach easily.

7. Taxes, local ordinances, and zoning laws.

Be sure you check into the ordinances and laws in your community and understand how they will affect your business. You will have to comply with fire code regulations and, if you deal with food, either selling or serving it, there will be board of health regulations and standards that apply to your business. If you plan to renovate the building or do any construction work, you will probably need a building permit.

8. Other considerations.

Watch for natural barriers, such as hills or bridges, that may keep potential customers from using your business.

Avoid unpleasant locations, sites that are near heavy smoke, noise, or bad odors.

Your Lease

If you lease a location as most small businesses do, review the lease agreement and be sure you know the answers to the following questions:

- How is the rent determined?
- Is the rent high or low considering the neighborhood, the facilities you are renting, and the rents other businesses are paying?
- What services and utilities are included in the rent?
- How long is the lease and what are the provisions for renewal?
- If you make any changes or improvements in the space you rent, who pays for them and who owns them?
- Are there restrictions in the lease that will affect your business?
- What insurance does the landlord have and how well does it cover you?
- Can you sublet?
- If you need to expand, will it be possible?

Be assertive in dealing with the landlord. If he refuses to deal with you seriously because you're a woman or you suspect he's trying to take advantage of you, bring in a lawyer to help in the lease negotiation. It's probably wisest, in any case, to go over the lease with your lawyer, accountant, and/or insurance agent before you commit yourself. Check for what it says and watch for what is does not say.

In the Future

Once your business is in operation, you should continue to assess your location. Watch for changes in the population of the community, customer buying habits, transportation patterns and the direction of community growth.

SETTING PRICES

The survival and growth of your business depend on your pricing decisions. The prices you charge determine if you'll make a profit, how much profit you'll make, and, often, how much business you'll have. You want to set prices that are high enough to cover all your business expenses and make some profit, yet low enough to attract customers. If you set prices that are beyond the means of the people you are trying to attract to your business or considerably higher than those charged by your competitors, your chances of success are slim.

When you described your business, profiled your customers, and chose a trading area in the course of doing your marketing research, you established your general pricing policy. You already know if you are trying to attract people buying in the low, medium, or high price range. Your choice of a a specific location and the quality of the goods or services you have decided to offer should reflect this general pricing policy.

The uniqueness of the products or services you offer strongly influences the prices you ask for them. A new business is rarely able to underprice existing competition so, instead of trying to offer the same products or services for less, concentrate your efforts on making your business unique or different from these established businesses. For example, instead of opening the fifth ice cream parlor in town, start the first frozen yoghurt parlor.

General Pricing Considerations

In terms of marketing, there are a number of general considerations that you should keep in mind when you think about setting prices.

1. High Prices

There are psychological considerations as well as economic ones involved in price setting. People tend to associate high prices with prestige and quality. If you are trying to create a prestige or status image for your business, you'll want to charge high prices. If you want to develop a reputation for quality or convince people you're professional, you'll be charging high prices. Consider the value of your service or product to your customer in setting prices. Especially in creative service businesses, it often takes a high price tag to convince customers that you're really good.

If your products or services are unique or different, charge for them. If your idea is a good one, competitors will copy it and try to capture your market. When they do, you'll be able to drop your prices. Hand calculators are a good example of a product that, when new and unique, had a high price that has since dropped as competitors entered the market.

2. Pricing to meet the competition

If you are offering products or services similar to those sold by other businesses, you need to know what they charge so that you can price competitively. No matter how convenient your location is or how attractive your business looks, if your competitors are greatly underselling you, you won't be able to attract customers.

3. Low Prices

You may need to charge low prices to enter the market. Setting low prices can help you attract customers and establish a clientele in a competitive business field. Similarly, you may want to offer an item or several items at a low price (compared to what your competitors are charging) in order to attract more people to your business in the hope that once they are there they will buy additional regularly priced products or services.

If you have a fad item (like pet rocks) that you expect to sell a lot of, price it low enough so that you can get in and out of the market quickly. Once the fad has passed, you don't want to be left with a backroom full of a product no one wants any longer. The same approach to pricing applies with any item you think you can sell in large quantities if you price it "low". Your goal is to increase the gross profits of your business by selling large numbers. Say, for example, you had a product and you thought you could sell 500 in a week if you charged $2.50, but only about 50 if you charged $5.00. The difference in gross profit would be $1000. Be careful using this strategy though. If you lower your prices too much, the increase in sales won't raise your total gross profit enough to make up for the low price. When you choose to set low prices always make certain your business will still be making enough profit to survive.

It's much easier for customers to accept a reduction in prices than a raise in prices. If you have a choice between setting high or low prices when you start your business, it may be wiser, in the long run, to price high. Then if your prices seem to be discouraging customers, you can always lower them.

Remember that even though your business may, in a sense, be a public service to the community (the only orthopedic shoe store or graphic design studio in 50 miles), you are in a business to make a profit and, if you are providing a needed service, you have every right to earn a reasonable profit.

Setting Your Prices

The first step to take in setting prices for your business is to figure out how much you'll need to make to breakeven; that is, how much it costs you simply to be in business. The Financial LAP that you will work with later will teach you how to estimate these costs. Then you need to look at the prices your competitors are charging or, if there are no competing businesses, talk to people you have identified as your potential market to find out what they would be willing to pay. This information will provide you with a pricing framework, a sense of the range within which you will have to price your products or services to attract customers. Keeping this information in mind, you can figure your prices using the following formula:

> Labor + Expenses for materials or goods + overhead (rent, utilities, insurance, etc.) + Profit = Price

The amount you add for profit depends on your type of business and what you have learned about your competition's prices and your customers willingness to pay. The Financial LAP will refer you to sources that give the typical profit for various industries.

Generally, the price you charge your customer can be broken down as follows:

$20	your price
$10 (50%)	covers labor and raw materials or goods
$ 4 (20%)	goes to miscellaneous supplies, overhead, and general expenses
$ 2 (10%)	covers selling costs
$ 4 (20%)	profit

Be sure that you allow for all your expenses when you set prices.

1. Retail Business Prices

The standard retail pricing rule-of-thumb is to sell an item at twice what you paid the wholesaler for it--a 100% markup. However, if you are selling unusual or imported items that are not generally available, consider their market value in pricing them.

There are two formulas that are often used to set retail prices: "markup on retail" or "margin on selling price" and "markup on cost". The Bank of America Small Business Reporter profiles on different kinds of retail businesses include a very clear explanation of how to use these formulas to set your retail prices.

Wholesalers provide tables for many retail businesses that show average industry markups on the cost price of items. In other words, these tables show how much businesses like yours charge for an item above what they paid for it. These tables provide a good idea of what your competitors will be charging and what your customers will expect to pay.

2. Service Business Prices

Pricing a service is far trickier than setting retail prices, because the "product" you are pricing involves mostly time and skill. One way to start out establishing your price for a service is to figure out your labor costs, then double them to cover overhead and general expenses, and then double this figure to be sure you make a profit.

In calculating your labor costs be sure to include preparation time and transportation. Keep track of all the little miscellaneous expenses involved in doing a job. If you don't allow for all these considerations when you set your prices, your profit will disappear.

3. Manufacturing Business Prices

If you plan to manufacture widgets, the first thing you need to do in order to set a price for one widget is to carefully estimate the costs of labor, materials and supplies for production, parts that you purchase from other businesses, special equipment, plant overhead, and selling and administrative expenses. Estimate the number of widgets you expect to make. If you figure out that your expenses come to $4000 a month and you expect to produce one widget in that time, then you'll have to charge over $4000 for a widget in order to stay in business. On the other hand, if you expect to produce 4000 widgets a month, you can charge $1.20 and make a profit of $400 or charge $2.00 and earn $4000 profit.

4. Wholesale Business Prices

A formula for setting retail prices is:

Time + Expenses + Profit = Price

As a wholesaler you need to make your profit selling a product at about half what a retail customer will be paying for it.

Review Your Prices

Your pricing decisions are not final. If you set a price and competitors begin underselling you or you find your profit margin is so small your business looks like it's not for profit, you'll need to change your prices. Your costs of being in business will also vary over time and affect your profit margin. However, it is important that you set prices as carefully and accurately as you can, always keeping in mind the amount you have to make to stay in business. A reputation for rapidly changing prices can damage your business.

In addition to your basic product or service, you will also offer various services to attract and satisfy customers and to make them remember their experience with your business as a pleasant one. Customer services are the arrangements and special services which make your business attractive and convenient. The marketing research you have done will, to a large extent, guide your decisions about what customer services to offer.

First you need to consider the customer services offered by your competitors. Your business will have to offer comparable or even better services, if possible, or else offer some other advantage over its competitors in order to attract customers. If your competition delivers typed copy to clients 2 days after they receive the order, will you offer the same service? Can you deliver sooner? Or, if you can't deliver it, can you have it ready for them to pick up within one day or could you charge less?

What did you learn from your customer profile or from interviewing future customers? What services do they expect or want from a business like the one you plan to open? If your customers prefer to shop in the evenings after work or on weekends, you'll need to consider being open at these times. If they expect to be able to use their credit cards to pay for their purchases, you'll need to decide whether you will accept credit cards.

Of course, your current situation must also be considered in your decisions about which customer services to offer. Customer services take time, money, and energy and you have limited resources. It is far better to concentrate on doing one or two things well, rather than to promise more than you can reasonably expect or afford to deliver. As your business grows, you can add other customer services.

The kinds of customer services you may want to consider offering include:

1. hours and days of operation

2. parking arrangements

If you open your business in an area where parking is difficult, you may want to arrange to pay your customers' parking fees at a nearby lot. You will want to consider a minimum purchase requirement--the amount a client would have to spend at your business in order for you to pay for their parking--and the length of parking time you would cover.

3. pick-up and/or delivery

If you are considering offering pick-up and/or delivery services, you need to make decisions about the conditions under which you will offer the service--that is, would you offer this service only when sales above a certain amount were involved or would it be available to any customer? When and how often would you pick-up or deliver--every morning, Saturdays only, or immediately after you talk with or complete the arrangement with your client? How would you manage to offer the service--would you do it in your own car; purchase a business car or truck; hire someone on a part or full-time basis to handle this aspect of your business; arrange with several other nearby businesses to offer this service collectively and share the expense; or contract with an existing business that would perform this service for you?

4. repair and maintenance

If you sold typewriters, for example, would you also clean and repair them? If you sell plants, will you go out and take care of them or doctor ailing plants at your business location? If you decide to offer repair and maintenance services, outline exactly what you will offer, including when and how often you will provide this service.

5. installation services

If you sell diswashers or mufflers, would you install them or have an arrangement with other businesses who will handle this for you?

6. design assistance

If a customer came to your print shop for stationery or business cards, would you offer a choice between alternatives in a sample book or could you offer assistance in designing individualized materials? If you ran a dress making business, would you work from patterns or could you help your client design her dress?

7. alterations

If you ran a clothing store, you might alter clothes for your customers or make arrangements with a seamstress in the neighborhood who could handle any needed alterations.

8. warranties and guarantees for products or services

This is a good way to build good will and trust in your business, but there are risks involved. Don't guarantee that you can perform a service within a specified time period, for example, unless you are sure you can do it.

9. credit and credit arrangements

Extending credit to your customers can be risky and yet, in many businesses, you must offer credit arrangements to be competitive. There are advantages to offering credit. In general, it increases sales, since people tend to buy more when they can defer payment; builds repeat sales since people tend to continue to shop where they've been granted credit; builds goodwill because you are accomodating your customers; and provides a mailing list for promotional purposes. There are also clear disadvantages to extending credit. It increases the amount of working capital needed to run your business; adds to the cost of running your business since you have to keep more records, check out credit ratings, and bill your customers; tends to increase the amount of returned goods; and, inevitably, with all but major credit cards leads to collection problems.

Alternative credit arrangements that you may want to consider include:

a) charge accounts. The customer buys now and you bill her/him within the month for the entire amount of her/his purchases. Usually a somewhat longer period is allowed for payment. Since the customer must pay his/her entire bill at one time, charge accounts are not generally used when large amounts of money are involved...unless you're operating on Nieman Marcus' scale.

b) revolving charge accounts. You grant a line of credit or a "ceiling" amount of credit to a customer, for example of $2,000. She can charge at any time up to that amount. You send a bill each month and she must pay a certain percentage of her bill or a minimum amount as well as interest on the unpaid balance.

c) installment accounts. These are used for long term (1 to 3 years) credit and generally involve large purchases, like a car. Although some businesses do not require a down payment, most require that at least 20% of the total price be paid initially. A carrying charge is added to the price to cover the business' cost of offering this service. There are legal devices which protect the business in cases where payments are not made.

d) budget accounts. These are short-term installment accounts that are used for purchases involving more money than a charge account and less money than a regular installment account. Payments are spread over 3 months and there is no charge for interest if the bill is paid within the 3 month limit.

e) credit cards. Credit cards allow you to offer credit without collection hassles and a lot of paperwork. Your business has to pay a fee to join, a rental charge for the imprinting machine, approximately 4% on credit card sales you make, and nominal membership advertising fees.

This is not a complete list of possible customer services, nor are all of these services relevant to every business--a restaurant obviously doesn't have to think about offering repair and maintenance services or installment credit accounts, although other possible services, like having a cloak room with an attendant or valet parking, should be considered.

To decide which customer services you will provide, make a list of all the possibilities. You can create this list by writing down all the services your competitors offer, all those your customers would expect or have said they would like to have available to them, and any other new ideas you've thought up. Then divide your list into different groups of services by deciding which services you would have to offer to attract customers, which services would be nice to offer but aren't essential to your business' survival, and which services you really don't care to offer. You need to carefully assess services you have concluded are essential: are they really essential and, if so why--what part of the service is really important? You may not need to offer valet parking, although it's essential that free and convenient parking be available. Consider alternative ways you might offer the service and make the choice that best fits your business needs and resources. In reviewing nonessential services you would like to offer, be realistic. Some may not involve a great deal of your time and money--for example, having a pay telephone installed for your customers' convenience--while others represent a major drain on your resources. Decide which ones you can afford to offer now and which services you will add later on when your business is able to support them. Some of the nonessential services may be what you expect will make your business unique and different from competitors. In that case you may prefer to commit your resources to these services rather than offering services already provided by your competition.

Make your choices carefully and, when you choose to offer a service, sit down and write it down in detail--what is the service; when and how would you offer it; why will you offer it; what will it cost you; what do you expect offering this service will do for your business?

Once you're operating your business, reassess the services you are offering. Find out if they are costing what you had anticipated and if they are yielding the kinds of results you had expected. Ask yourself if there is another service that your customers are asking for more than one you are offering them. If you chose to be open evenings, but only a few customers drop by then while others are complaining that you shut too early on Saturdays, you'll want to seriously reconsider the decisions you originally made. And, of course, watch what your competitors do over time. As they add new services, you'll need to think about how the changes they make will affect your business. Watch trends and events in your community, in your industry, and nationally. If the city bans cars from the area where your business is located, free nearby parking will no longer be a necessary service while pick-up or delivery services become essential.

The dictionary defines promotion as "the stirring up of interest in an enterprise." If your business is to become successfully competitive in the marketplace, you must publicize it. Advertising and promotion introduce your business to potential customers and establish its existence in their minds, as well as serving to stimulate sales by attracting customers and building repeat business. The goal of your promotional efforts is to develop: 1) an awareness that you are there; 2) interest in your product(s) or service(s); 3) a desire for what your business offers; and 4) action on the part of the individuals you are trying to reach through these promotional efforts.

This fact sheet discusses ways in which you can publicize your business' existence, thus increasing its visibility and creating an interest in and a demand for the product(s) or service(s) you offer. The general topics that will be covered are: advertising, other promotional efforts, public relations, and merchandising.

Advertising.

Many small business owners operate on a tight budget and view advertising as a luxury they neither understand very well nor can afford. A general rule you should remember is: The less you feel you can afford advertising, the more you need it. However, unless you carefully plan and prepare your advertising, you're throwing your money away. To be effective, advertising must be carefully thought out, well-executed, and consistent. Advertising costs should be made a permanent part of your business budget; treat them as a fixed expense--like rent or utilities--for which you allocate a fixed amount of money each month. Then develop a year-long, month-by-month marketing promotion plan for your business and chart out the use of the advertising money you have allocated in your budget. In setting up your plan, you need to coordinate your expenditures with the business cycle for your industry so that you get the greatest return on your advertising dollars. In other words, if you are in an industry that has peak periods, such as toy stores around Christmas time, you want to plan to spend more on advertising during these periods so that you can capture your full share of the market. In slump periods, you'll want to spend less on advertising so that you aren't wasting money in a period with low sales potential.

Developing an Advertising Program

Creating an advertising program is basically a step-by-step process that proceeds as it's outlined below.

1. Assess your business' products or services, your competition, and your target markets. The work you did in the Marketing Research LAP on evaluating your business idea, profiling your customer, segmenting your market, and analyzing your competition should help you here.

2. Using the information you have gathered in the assessment stage about what it is you are trying to sell, what your advantages are over your competitors, and who it is you are trying to reach, establish some advertising goals for your business. For example, you set such goals as: offer special inducements to "get acquainted"; increase store traffic; capitalize on the seasonal nature of a product; or keep the business' name before the public.

3. Establish an advertising budget. There are a variety of approaches to setting an advertising budget. The two best methods for the small business owner are the "percentage of sales" and the "objective and task" approaches. In the "percentage of sales" method, you set a fixed total amount for annual advertising and then divide this total into shares for each advertising medium you plan to use. This can turn into pretty tricky work. The Bank of America profiles of various types of businesses often cite the average percentage of sales that businesses in the particular industry spend on advertising. In the "objective and task" approach, you figure out your business' needs and objectives and then figure out how much it will cost you to achieve these goals. If you adopt this method, don't be too ambitious; your advertising plan should fit your budget realities.

In establishing your advertising budget, remember that the amount you spend should be the amount which results in the highest profit. You'll need to monitor the results of your advertising efforts in order to determine what amount this is for your business. The Small Marketer's Aid No. 121, "Measuring the Results of Advertising," that is included in your reading materials for this LAP offers guidelines that will help you get the best results from your investment in advertising.

4. Select the most cost-effective advertising media for your business and your advertising goals. To select specific media and determine how much of each one to use, you need to consider:

a) Trading area. How large a geographic area or sales territory are you trying to reach? The neighborhood dry cleaners should use local media like the community newspaper or shopper, hand-distributed flyers, or window posters. The manufacturer of an industrial product with a national market will want to advertise in business, trade, or special interest publications.

b) Customer type. What target market are you trying to reach? A record store might reach teen-agers by advertising on a rock radio station, but it won't reach their grandparents.

c) Budget restrictions. If your annual advertising budget is $1500, you aren't going to want to spend it on television advertising.

d) Frequency and continuity. If your approach is to use a high-pressure approach to stress your low prices, you'll put out more advertising and advertise more often than a low-profile business owner. Seasonal ups and downs for your type of business will also affect the level of advertising you need at a particular time. In ad mediums like radio or television, an ad must be run a number of times in order to be effective.

Advertising Media

Advertising media vary from one another in terms of the type of business for which they are appropriate, the geographic area they cover, the type of audience they reach, and cost. There are advantages and disadvantages associated with each medium. As a small business owner, you need to consider all of these factors in light of your business' needs, finances, and advertising goals in order to select the media best suited to your business.

1. Newspapers

The favorite ad medium of retailers, newspapers probably reach the greatest total number of prospective customers and are relatively inexpensive. Most newspapers base their advertising rates on circulation figures and the cost of an ad is computed by column inch or line.

The major advantages of newspaper advertising are that you can change ads on short notice and that the reader can clip out your ad and keep it. The major disadvantages are that it's hard to use a newspaper which is read by a wide variety of people to reach a specific audience and that younger people tend to be oriented toward broadcast media rather than print. If you are trying to reach customers within a certain geographic area, use the local or neighborhood paper.

a) Classified section. The classified ads are good for advertising certain kinds of products. They are less expensive than buying space in other sections of the paper and often bring good results.

b) Weekly newspaper. Weekly papers usually reach readers in a single community which can be a disadvantage if your trading area is wider than that served by the paper. However, you do build local identification through advertising in the community paper.

c) Shoppers. Shoppers or advertising papers are free which means that many never are read. On the other hand, people who read them are already in a buying mood.

d) Other newspapers. School, military, and special interest group papers are a good place to advertise if your product or service appeals especially to the paper's readers.

Hints

- Sunday, Wednesday, and Thursday are good days to advertise; avoid Friday and Saturday.

- Use vertical ads. They cost the same amount for the space, but they are harder to fit on a page and, therefore, tend to end up at the top of the page.

- Leave white space in your ad. Run a border around it to set it off from the rest of the page. Don't let your copy run to the edge of the column.

2. Radio

Radio is a good advertising medium for a business that serves an identifiable group--teens, retired persons, commuters. You need to choose a station that your target market listens to and you want to buy time when they will be listening. Radio ads reach a definable market area within the station's broadcast range. Radio time is sold in amounts of 10, 30, and 60 seconds and the cost varies according to the time of day and the size of the listening audience. A general rule you need to remember about radio advertising is that it's effective only when it's used consistently.

The major advantages of radio advertising are that you can pick a station and time that will reach your target audience; you can often prepare an ad in the morning and have it broadcast later in the same day; and listeners will hear your ads whether they want to or not. If you advertise intensively, eventually you will reach all your listeners. On the other hand, the need for repetition--which can become expensive--and brevity are disadvantages. If a radio station is popular, there may be a wait before you can get the time spot you want--or any time spot.

3. Television

The cost of advertisement production and air time on television is usually too expensive for the small business owner. Television is also the most efficient advertising medium only if you have a product or service with mass appeal. Air time is sold in units of 10, 20, 30, and 60 seconds and, like radio, ads must be repeated to be effective.

4. Direct Mail

Direct mail advertising includes brochures, catalogs, circulars, price lists, letters, and postcards sent directly to the potential customer. Because you can control the size of the market you cover and the type of audience you reach, direct mail is the surest way to reach your target audience. It's a good advertising approach for new and expanding businesses and for businesses using coupon returns or catalogs. Mail order businesses obviously rely heavily on this approach. On a message-per-message basis, direct mail is not very expensive.

Mailing lists can be compiled from lists of past and present customers or they can be purchased from the Chamber of Commerce, local newspapers, or from organizations which specialize in compiling mailing lists. You must have a good mailing list, if your advertising is to be effective.

In addition to enabling you to reach your best prospects and its relative inexpensiveness, direct mail advertising allows you to tailor your message to the recipient and results in fast feedback to you about the effectiveness of your mailing.

Hints

- Don't address your mailings to "occupant." You are trying to build good will by offering information to a select group and there is nothing special or personal about receiving a letter addressed "occupant."

- If you are planning a large mailing, it's often wise to try it out on a small group first. You may want to mail different versions to several groups to see which brings you the best results.

5. Flyers/Handbills

Flyers or handbills are a fast and cheap method of advertising in a restricted geographic area. However, you have no control over who receives them or whether they pay attention to them or not.

6. Directories

The Yellow Pages. The yellow pages are especially useful for service businesses, retailers of brand name items, and highly specialized retailers. People use the yellow pages not so much for businesses they use frequently as for those they need only on occasion. You can reach more prime prospects by advertising in the yellow pages than through almost any other medium. Another advantage of this form of advertising is longevity: telephone directories are issued annually and they tend to be used well beyond the year they are issued. This is also a disadvantage since, if you move or change your product line, you can't change your ad for a year.

Business, trade, professional, or industry directories. These directories are usually compiled as a service to the field. While a listing in one of these directories is often free, you may have to pay for a copy of the directory or for additional advertising space. In deciding whether or not a listing in one of these directories will be advantageous for your business, you should consider:

a) completeness--Are there enough listings and advertisers so that buyers will frequently use it?

b) ease of use--Are the listings well-organized and cross-referenced by company, geographic location, and product line?

c) evidence of use--Does the directory have a good reputation and is it widely used because it's considered the directory for the field?

d) age--Has it been published long enough for buyers to remember it and use it?

e. circulation--Do people who use it have to buy it or is it given away? Is there a sworn or audited circulation statement for the directory?

7. Outdoor and Transit Advertising

Outdoor advertising includes billboards, signs, posters, and ads on park benches. Transit advertising consists of signs inside or outside of buses, taxis, and subway cars or in terminals, platforms, or stations. Outdoor advertising is especially good for amusement and tourist businesses and brand-name retailers. You get high exposure at a reasonable cost and it may bring good results. The disadvantages of outdoor advertising are: (1) you can give only limited information (count the words on a billboard!), and (2) people often consider outdoor advertising an eyesore.

Transit advertising is good for businesses along transit routes. You reach a captive audience with high frequency. This kind of advertising is generally restricted to businesses operating in urban areas with transit systems and, even in these areas, the cost may be too high for small business owners.

8. Magazines

Magazines, especially special interest magazines, have a long life span. If you advertise in the right special interest magazine, you will hit an audience with a high interest in your product. You can run high quality printing and color ads in magazines, but the space you buy will be expensive and you will have to submit your ad several months before it appears in print. The type of magazine you select to advertise in should be chosen on the basis of your product, the audience you are trying to reach, and your trading area.

a) local magazine. These publications reach the entire metropolitan area or region. They are a good place for restaurants, specialty shops, mail order businesses, and entertainment businesses to advertise. They reach a general audience, with readers tending to be well educated and more affluent.

b) trade journals. Manufacturers and wholesalers advertise in trade journals for particular industries. Often this is the best way for these types of businesses to reach their target market.

c) national consumer magazines. Mail order businesses should consider advertising in the shopping advertising pages or classified section of national consumer magazines.

Hints

- Some magazines have different geographic editions and buying space in one edition is less expensive than buying space in a national edition.

- In assessing a magazine's usefulness to you, look at the circulation figures. Paid subscriptions are considered an indication of high reader loyalty.

9. Trade Shows

Manufacturers and distributors advertise through displays at trade shows. The cost of this kind of advertising varies according to the size of the show, the type of display you choose, the size of the staff you need, and transportation costs.

Hints

- Literature is a trade show staple, but don't hand out expensive literature, such as catalogs, to everyone. You can ask people to fill out catalog request cards, for example, and develop a mailing list in the process as well.

- Provide giveaways on a selected basis, too. You might write buyers in advance of the show inviting them to visit your display, bringing the coupon enclosed in your letter to exchange for a free sample.

10. Specialty Advertising

Gifts to customers, suppliers, dealers, or the general public are a form of advertising. They may be matchbooks, pens, or calendars, but whatever they are your aim in giving them away is to build goodwill. They should be tied to your business; for example, a lumber yard might give away tape measures or a travel agency might send calendars with pictures of vacation spots. You will want to have your business' name, address, and logo, slogan, or trademark on the item. In selecting an item, consider the cost for each one and its suitability to your business and to the person who will receive it. Generally, gifts help you keep present customers rather than attracting new ones.

Advertising Assistance

You can get information and technical assistance that will help you develop your advertising program. The various media can provide you with rate sheets that will help you figure out the cost of alternative advertising plans and with marketing data about the kind of audience they reach. In some cases, they will also provide technical assistance in preparing your ad.

Print shops can often help with the design and layout of an ad they are printing up for you. Manufacturers and distributors often provide retailers with advertising funds or finished ads.

Ad agencies are also a resource you may want to use and that you should definitely visit. Talk to several ad agencies about what they could do for you. It's often recommended that small business owners go to small ad agencies where their account will receive more attention. Many radio stations will charge you the overhead an agency would get even if you don't use one.

Promotional activities.

There are a number of other ways besides advertising per se that you can use to attract attention, build good will, and increase your sales.

1. Community Service Activities

Sponsoring a sports group or donating goods or services to a charitable event can benefit your business. The IRS does have limits as to how much of this kind of activity is deductible as a business expense, so you should check on this.

2. Window Display

Window displays are a form of advertising that is well within the means of small business owners. You can get ideas from observing what other businesses have done, from window display firms, or from books and trade magazines. Be creative; use inexpensive materials and pick holidays or community events as your theme. Window displays should be changed at least once a month.

3. Interior Display

Interior displays should be related to and reinforce the other types of advertising you are using. They are especially good for new product lines, special promotional items, small articles that might be lost on the shelf, and to display several models in one product line. If you have a small store and carry some products that are too large to put out where people can see them, you can use an interior display to carry literature about them. Interior displays give the customer information when a staff person isn't available to help her and capture impulse buyers.

You should use displays that are a reasonable size--you don't want traffic hazards--and place them at strategic points (by the entrance or cash register, for example). Select displays that relate to the seasons, the weather, or holidays and use them to show your best merchandise. Most retailers get their displays from manufacturers or distributors.

4. Other Promotional Options

Other promotional possibilities you may want to consider, include:

a) one-time offers
b) special introductory rates
c) discounted prices or advertised specials
d) premiums or coupons
e) contests or games
f) using a business logo or symbol

Clearly, you would want to publicize these activities in your business advertising.

5. Personal Selling

Personal selling is one of the most intensive and high impact ways you can gain visibility and build sales. It is especially good for new businesses and wholesale or manufacturing businesses. It has obvious disadvantages: it's time-consuming, requires sales competence, and there are limitations as to how many people you can reach.

Public relations and merchandising.

Public relations means using publicity to inform the public of your business' activities with the goal of creating favorable public opinion. Public relations refers not to ads that you pay for but to media coverage that you attract. News or feature stories or interviews in the newspaper, on the radio, or on television are the result of public relations activities.

If you are opening a new business or marketing a unique new product, treat it as a news event. If you can tie into a trend or create an angle that is newsworthy, make the most of it. You can write a news release, a brief (one-page), double-spaced announcement that clearly and simply tells the who, what, where, and when of your news. Call up the paper and find out to whom you should send a news release on this topic and mail it to her/him. You should list a contact source on your release, that is someone the recipient can call for more information on the story. Remember, your news release _must_ have something newsworthy in it.

Another possibility is an interview with the paper, radio, or TV. If you feel you have a newshook or angle, call up and explain it briefly, and ask if it sounds interesting. It could be that you're the first woman in the state who's ever owned the type of business you opened, for example. If they are interested, offer to "put it in writing" and, a few days after you've sent the letter, phone to follow up on it. If you try this, always go to the person in charge: at a newspaper, it would be an editor, while with radio or TV, it's the producer.

Television coverage of an event is another result of public relations work. If, for example, the hot issue in the news was a meat boycott and you had scheduled a free demonstration of meatless menus at your gourmet cooking school or, perhaps, you're holding an exhibition of the best art work from the local schools at your art gallery, you might find the local TV station was willing to cover the event. Call the assignment editor at the television station, if your news event is happening right away, and _briefly_ explain it to her/him. If it's not a really "hot" item, send a telegram a day beforehand.

Either of the news events described above could also be run as a feature story in the newspaper. Phone the editor and tell her/him that you have a story that might be of interest to the paper's readers and briefly outline your idea. If you get an okay, write a page and a half story (with "Special to The Daily Bugle" at the top) and mail it to the editor. The editor may want to send a staff member out to see you, but many local papers are understaffed and are pleased to use material they receive.

With all public relations activities, look at your story from the audience point-of-view. Will it be of interest to the reader, listener, or viewer? If so, go ahead and sell your idea that way: "I have something your readers might be interested in." Learn who can do you some good in your area. Study the local papers and listen to radio and TV broadcasts; remember the bylines and the stories and get an idea of the person's tone and attitude. You don't want to try to interest the perpetually dissatisfied restaurant reviewer in visiting your restaurant. Don't try to pressure your contacts once you've developed them. If, for example, half the people enrolled in your needlepoint classes are men, you may just want to mention it to the ad salesperson when you arrange for your weekly ad.

When you do get newspaper coverage, merchandise it. Cut out the article, mount it on paper and have copies run off to send your customers. Let's say you have invented and are manufacturing a new product that's used in restaurants. If an article is run on your product, you can print it up with a letter above the article to "Dear Restaurant Owner." Then mail this to all the restaurant owners in your market area. You may want to use quotes from news articles in your business ads or exhibit copies of the articles in your display window or office. When you do receive publicity, make it go as far as you can.

A final reminder.

Word-of-mouth advertising is the best publicity your business can possibly have. If you build a good reputation with the public through courtesy and special services, you'll find you have the most important and least expensive advertising there is.

BUSINESS LOCATION

Mp6

Use your business idea to answer the following questions. If you plan to operate your business from your home, you should still have answers to these questions.

1. What are your essential requirements in a site? (That is, what would you absolutely have to have in a business site?)

2. What would it be nice--but not essential--to have in your business location?

3. Choose a real location in your community for your business site. This doesn't have to be a site that is currently available, but one that would be ideal for you if it were free. Briefly describe this site and explain why you chose it.

Location:

I chose it because:

1. Think of a product or service you could buy at about the same price at several different businesses. The product or service need not be identical, but the price should be approximately the same.

   a. What is it?

   b. Why do you think these different businesses charge similar prices?

   c. Which business would you be most likely to go to?

   d. Why would you go there?

   e. Under what circumstances would you go to one of the other businesses instead?

2. Think of a product or service you could buy at noticeably different prices at several different businesses. Again, the product or service does not have to be identical at each business place, but it should be essentially the same.

   a. What is it?

   b. Why do you think different businesses charge different prices?

   c. Which business would you be most likely to go to?

   d. Why would you go there?

   e. Under what circumstances would you go to one of the other businesses instead?

3. For the product or service you are planning to offer would your general policy be to price in the high, medium, or low range?

   Why do you feel this is so?

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CUSTOMER SERVICES

Using your business idea, complete the following check list and answer the three questions listed below.

	Services my competitors offer	Services my customers expect	Additional services my customer would like	Services I could reasonably offer
1. Free Parking Arrangements......				
2. Pick-up......................				
3. Delivery.....................				
4. Repair and maintenance.........				
5. Installation..................				
6. Design Assistance.............				
7. Alterations...................				
8. Warranties or guarantees.......				
9. Credit arrangements				
charge accounts............				
revolving charge accounts...				
installment accounts........				
budget accounts............				
credit cards...............				
10. Accepting checks..............				

11. What days and hours would your business be open?

12. What other customer services might you offer?

13. Considering the services offered by your competitors and the expectations of your customers, do you feel the services you plan to offer are adequate to ensure your business' survival?

PROMOTIONAL ALTERNATIVES

Which of the following promotional alternatives would be appropriate for your business idea? Which would you be able to afford in your start-up phase?

	Appropriate	Affordable
Personal selling		
Yellow page advertising		
Local newspaper		
Metropolitan-area newspaper		
Advertising or shopping guide newspapers		
Local magazines		
Trade journal magazines		
National special interest group magazines		
Radio		
Television		
Direct Mail		
Flyers		
Telephone solicitation		
Trade or industry contacts/shows		
Outdoor advertising (billboards, posters)		
Transit advertising (buses, trains, taxis)		
Putting together a catalog for your business		
Free samples		
Demonstrations		
Public service activities		
Special introductory rates		
Discounted prices or advertised specials		
Customer gifts (e.g., matchbooks, balloons, calendars)		
Specially designed business logo, shopping bags, stationary		
Business newsletter		
Premiums or coupons		
Contests or games		
Store window display		
Store interior display		
Packaging and/or styling of product		

2. Would there be a particular time or times during the year when you would want to step-up your advertising?

   If so, when would that be?

   Why?

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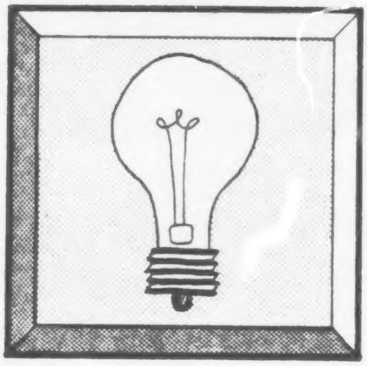
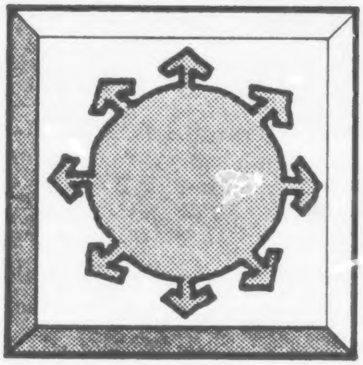
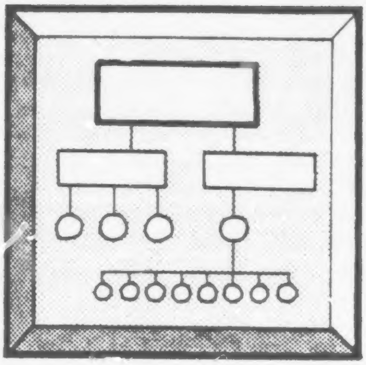






Setting up your business

Start-up Decisions and Choices

Setting up your business requires careful thought. A successful business is set up to work well--it has a legal structure that suits it, adequate insurance to protect it, and a recordkeeping system which helps chart its progress, predict its future, and meet its legal obligations. To set up such a business, you need to know which government regulations and tax laws will apply to your business; the alternative legal structures that are available for your business; the kinds of risk you can insure against; and what business records need to be kept and how to set up and maintain them. Furthermore, since you may need advice from specialists who work with small business owners in order to make wise decisions on these matters, you need to know to whom you can turn for sound business advice and assistance.

This LAP is designed to help you set up your business. It provides basic information on the topics mentioned above. You should remember, however, that these are general guidelines meant to inform you of your choices, to alert you to areas of concern to new business owners, and to start you thinking, reading, and talking to business experts. Your final decisions should be based on a knowledge and understanding of your future business and of how each alternative choice would affect its operations and well-being.

When you have completed this LAP, you will be able to:

1. Identify the three major legal forms of business and list at least two advantages and two disadvantages of each legal form.
2. Select the legal form that you believe best fits your future business and explain your choice.
3. Explain what a fictitious name statement is and under what conditions it must be filed.
4. List two Federal, two State, and two local taxes which many businesses are required to pay.
5. Name the four kinds of insurance most businesses carry and two other kinds of insurance that are often desirable.
6. Identify at least four business records you will need to keep for your business.
7. Name the four professional experts most often used by small business owners.

Before your next class: Review the materials included in the LAP. Read the five fact sheets: "Choosing a Legal Structure," "Staying Within the Law: Licenses, Regulations, and Taxes," "Safeguarding Your Business: Insurance Needs," "Setting Up the Books," and "Obtaining Advice and Assistance."

ACTIVITIES

The activities listed below are designed to guide your learning about the processes and considerations involved in setting up a business. If you follow them, step by step, you should be able to meet the seven goals of this LAP by the time you are finished.

1. Attend a class presentation by a panel of business specialists: an accountant, an insurance agent, and a lawyer. These guest speakers will discuss:

    a. alternative choices of legal structure, insurance coverage, and recordkeeping that are available to the new business owner and the importance of these decisions;
    b. the legal obligations of a new business; and
    c. what services they, as specialists, can offer a business owner.

    The presentation will include a question and answer period.

On your own...

2. Consider what you need and want in your business' legal structure by filling in the "Legal Form of Business" worksheet. In answering these questions, you may find it useful to refer back to the fact sheet you read on "Choosing a Legal Structure."

3. Complete the "Government Regulation and Taxation" worksheet. The fact sheet "Staying Within the Law: Licenses, Regulations, and Taxes" will be helpful in this activity.

4. Begin to assess the insurance needs of your future business by completing the worksheet on "Insuring Your Business." The information in the fact sheet "Safeguarding Your Business: Insurance Needs" should provide you with some ideas about the risks your business may face.

5. Try your hand at business recordkeeping by filling in the forms included in the worksheet on "Recordkeeping Basics." You will probably need to reread parts of the fact sheet on "Setting Up the Books" to complete this activity.

6. Participate in a small group exercise. Form a group with two or three of the class participants and write a partnership agreement for the group's future business. You may write this partnership agreement for whatever business you choose, but all members of the work group will be partners in the business and should, therefore, see that their interests are met in the final agreement. The fact sheet "Choosing a Legal Structure" outlines some of the basic items that should be included in the agreement. Be prepared to briefly present your agreement in class.

Start-up Decisions and Choices
MATERIALS

The materials that should be included in your LAP are:

Fact Sheets:
Choosing a Legal Structure
Staying Within the Law: Licenses, Regulations, and Taxes
Safeguarding Your Business: Insurance Needs
Setting Up the Books
Obtaining Advice and Assistance

Worksheets:
Legal Form of Business
Government Regulation and Taxation
Insuring Your Business
Recordkeeping Basics

Optional Reading

Anthony, E. L. and Comstock, A. B. Choosing the legal structure for your firm. SBA: Management Aids for Small Manufacturers No. 80, 1973. This aid provides a brief, general picture of what different business legal structures involve. It discusses only sole proprietorships, partnerships, and corporations.

Bank of America. How to buy or sell a business. Small Business Reporter, 8 (11), 1969. This pamphlet is especially directed to sole proprietorships and stresses the need to make buying a business a logical rather than an emotional decision. Pages 1-7 discuss considerations involved in buying a business.

Bank of America. Business management: Advice from consultants. Small Business Reporter, 11 (3), 1973. Interviews with 3 management consultants, a certified public accountant, and a communications specialist provide a sense of the kinds of assistance outside consultants can offer the small business owner. Guidelines on selecting a consultant (p. 16) and the interview with the CPA (pp. 10-12) are especially related to the topics in this LAP.

Bank of America. Avoiding management pitfalls. Small Business Reporter, 11 (5), 1973. This booklet discusses errors that management experts believe are most often committed by business managers. Pages 1-4 on the problems caused by lack of experience and sloppy recordkeeping are useful for this LAP.

Bank of America. Mail order enterprises. Small Business Reporter, 11 (7), 1973. A good overview of all aspects of starting and running a mail order business, pages 3-5 cover ways to get into this kind of business, legal requirements, and insurance.

Bank of America. Franchising. Small Business Reporter, 9 (9), 1975. If you are considering starting a franchise business, this booklet offers useful guidelines on finding and evaluating a franchise and a good overall picture of franchising.

Cashin, J. A. Building strong relations with your bank. SBA: Small Marketers Aids No. 107, 1964. What to consider in selecting a bank, reasons to build strong relationships with your bank, and ways to build them. Also useful as a checklist to see if you're doing all you can to foster good relationships.

Cooper, I. M. Accounting services for small service firms. SBA: Small Marketers Aids No. 126, 1974. An explanation of what a public accountant can do for you, including setting up your recordkeeping procedures, interpreting records, and providing financial advice based on this interpretation.

Cotton, J. Keeping records in small business. SBA: Small Marketers Aids No. 155, 1974. Outlines the requirements of a good record system and the minimum records required and offers tips and pointers on recordkeeping.

Department of the Treasury. Internal Revenue Service. Tax Guide for Small Business. This publication, available from the IRS, explains how federal tax laws apply to sole ownerships, partnerships, and corporations. It touches on all aspects of a business that are related to taxation, including legal structure, recordkeeping, accounting methods, acquiring business assets, and terminating a business. A comprehensive, useful guide.

Greene, M. R. Insurance checklist for small business. SBA: Small Marketers Aids No. 148, 1971. This checklist is designed to help you identify areas where you could improve your insurance coverage and to serve as a guide in discussions with your insurance agent or broker.

Greene, W. C. Getting the facts for income tax reporting. SBA: Small Marketers Aids No. 144, 1975. Suggestions on bookkeeping techniques that help you accumulate the necessary information for computing return schedules and taxes owed.

Institute of Life Insurance. Business life insurance. SBA: Management Aids for Small Manufacturers No. 222, 1975. When the owner-manager of a business dies, business life insurance protects her/his business and family. This pamphlet discusses the "what's" and "why's" of business life insurance as they apply to the small business owner involved in a sole proprietorship, partnership, or corporation.

Laughlin, C. W. Legal services for small retail and service firms. SBA: Small Marketers Aids No. 118, 1965. A discussion of those aspects of conducting a retail or service business in which legal services are particularly useful, including business organization and tax planning.

Olshan, N. H. Recordkeeping systems--small store and service trade. SBA: *Small Business Bibliography No. 15*, 1975. Written for the owner of a small business who wants to set up records which can be maintained by someone with little or no experience or training in bookkeeping or accounting, this bibliography includes recordkeeping systems for general use and others designed for use in specific types of businesses.

Radics, S. P. Steps in meeting your tax obligations. SBA: *Small Marketers Aids No. 142*, 1975. Discusses the need for an informed, systematic approach to handling Federal, State, and local taxes and explains what's involved in such an approach. Outlines the various major taxes and includes a worksheet for listing taxes and due dates.

SBA. Office of the General Counsel. Steps in incorporating a business. SBA: *Management Aids for Small Manufacturers No. 111*, 1974. Outlines the steps involved in incorporating and the information that is generally required.

SBA. Office of the General Counsel. Incorporating a small business. SBA: *Management Aids for Small Manufacturers No. 223*, 1976. Very similar to the pamphlet described above; some minor differences.

Voorhees, T. Selecting a lawyer for your business. SBA: *Management Aids for Small Manufacturers No. 108*, 1959. Discusses several criteria for selecting a lawyer and steps to take in securing legal representation. The choices between general practitioners or specialists and small or large law firms are considered.

CHOOSING A LEGAL STRUCTURE

Your business must have a legal structure and there are three basic business forms to choose between: sole proprietorship, partnership, and corporation. Each of these legal structures has advantages and disadvantages which every future business owner should be aware of before making her decision. In order to select the form which best suits your business, carefully weigh the pros and cons of each alternative in terms of: 1) legal costs and procedures necessary to start a business; 2) liability of the owner(s); 3) managing the business; 4) taxation; 5) acquiring additional capital; and 6) continuity of the business. Your choice of a legal structure is not a final decision. What you need to determine is which business form is best for your business now.

This fact sheet discusses each of the three basic forms of business and includes mention of several variations on these three forms. However, such specialized business forms as syndicates, Massachusetts trusts, joint stock companies, pools, and partnership associations which are rare and generally not of interest to the small business owner will not be covered. Franchising, which is not a legal form but a method of distribution, will be discussed in the final section of the fact sheet.

Sole Proprietorship

The sole proprietorship, a business with one owner, is the oldest and most common form of business. If you want to stay small and simple, this is probably the best choice for you. In terms of legal procedures, it is the easiest kind of business to start (and to end) and the start-up legal costs are low. You will probably have to pay a local license fee and, possibly, a state tax or license fee.

Liability. As sole owner of the business, you are personally liable for all the business' debts. Your liability can't be restricted in any way and includes your personal property and assets.

Management. You're the boss and, as long as you don't break the law, you can run your business as you please. This total responsibility can be an incentive to good management. However, for the sole owner who lacks business experience and expertise, having to make all management decisions can be a disadvantage.

Taxes. In sole proprietorships, personal income tax is paid on all business profits. No return is filed for the business itself.

Raising capital. To raise additional capital for your business, you can borrow, purchase on credit, or put more of your own money into the business. The sole owner is always limited by her own financial situation. Banks and suppliers will look at your personal wealth in deciding whether to lend money or extend credit, because you are personally liable and must pay up if the business can't. If you are going to need large amounts of capital, don't organize your business as a sole proprietorship.

Business continuity. The business is terminated by the death or incapacity of its owner.

Partnership

When two or more people decide to start a business together, they often choose to organize it as a general partnership. The strongest partnerships develop when the partners have complementary skills and know each other's business behavior before starting their joint venture. For the protection of all the partners, a partnership agreement, called the "articles of partnership," should be written up, preferably by an attorney. This agreement should clearly spell out the following:

1. how the business' profits or losses will be divided between the partners;
2. how each partner will be compensated (Will you take your share of the profits home or will a certain proportion be plowed back into the business?);
3. the duties or division of responsibilities between the partners;
4. how decisions will be made in a stalemate;
5. how the partnership can be dissolved and how the business' assets are to be distributed if this occurs; and
6. how, if one partner decides to leave the business, the remaining partner(s) can buy her interest in the business. (This is known as a buy-sell agreement.)

While a partnership will have to obtain any necessary licenses, the costs of organizing this way are usually low.

Liability. Each partner is fully liable for all debts owed by the business, regardless of the amount of her personal investment in it, and this liability extends to personal property and assets. Each partner is also responsible and liable for the acts of the other partners with regard to business obligations.

Management. Typically, each partner has an equal role in management with the various duties divided among the partners. Their combined abilities and knowledge may give the partnership an advantage over the sole proprietorship regarding management, although the division of management duties may lead to disagreement. Business decisions can be made and changes adopted by oral agreement among the partners.

Taxes. Each partner pays personal income tax on her share of the business profits. Personal income tax rates are graduated and income averaging is allowed. The business files an informational return.

Raising capital. It's easier to raise capital with a partnership than with a sole proprietorship, because the resources of two or more people are combined. Because the partners are personally liable for the money they borrow, they may be able to borrow on better terms than a corporation and they may get outsiders to extend credit.

Business continuity. A partnership is terminated by the death, incapacity, or withdrawal of any one of the partners, unless the "articles of partnership" state that the surviving partner(s) can continue the business after buying the deceased's interest from her estate or other arrangements for continuing the business are outlined.

There is a second kind of partnership, the limited partnership. This is a more legally complex form of business and there are rigid rules which have to be followed. A written contract between the partners must be filed with the state and there must be at least one general partner. "Limited" means limited liability; a limited (or "silent") partner makes an investment in a business and is liable only for that amount. If limited partners take part in any management activities, they can be held responsible as general partners. They do, however, have the right to inspect the business' books and to obtain full and complete information about the firm.

Corporations

A corporation is a legal entity consisting of shareholders and is chartered by the state. It has the authority to transact business in the same manner as one person. The corporation is more complicated to form than the other two types of business organization and it is usually far more costly. Legal procedures specified by the state in which the corporation is being formed must be strictly followed. Generally, incorporation proceeds as follows:

1. three or more people (depending on the state) organize and become corporate officials (A sole owner could list her lawyer and accountant as the other officials.);

2. the officials then file "articles of incorporation" with the state;

3. a filing fee and initial franchise tax must be paid; and

4. an official meeting is held to deal with specific details of operation and organization.

While you can incorporate a business without using a lawyer, it is not a wise idea. If you can't afford legal counsel, you can't afford to go into business. However, when discussing your choice of legal form with a lawyer, remember that she/he has a built-in incentive to advise incorporating, a process and business form which requires much more legal work.

If a corporation wishes to operate outside of the state in which it is chartered, it must comply with special in-state obligations: filing of certain legal papers; appointment of a representative within the state to act as an agent; and payment of required fees and taxes.

Liability. The stockholders, or owners, of a corporation are liable only for the amount of their investment. While stockholders may lose all the money they have invested in the business, they cannot be forced to pay corporation debts with additional money from personal funds. If the corporation's assets don't pay the total amount of creditors' claims, the creditors won't receive full payment.

Management. Stockholders may but don't have to participate in operations and policy formulation. These functions are often centralized in a small group of executives who own a small percentage of the shares. When those in control of the corporation have little or no financial interest in it, there is always the risk of inefficient management. On the other hand, this situation may result in more objective and far-sighted management. All major decisions are made by the Board of Directors. Unlike partnerships, stockholders cannot bind the company by their acts simply because they have invested capital in it.

There is a great deal of paperwork involved in running a corporation. A company organized in this manner must operate as a corporation at all times, that is, there can be no commingling of personal and business funds, separate tax returns must be filed, and annual meetings must be held. The sale and exchange of stock is governed by state laws to protect the investing public.

Taxes. The corporation is taxed twice. First, the corporation is taxed on the amount of business profits. The corporation can deduct legal forms of distribution, such as direct salaries, deferred compensation, and stock options, from its taxable income, provided these payments are "ordinary and necessary" and made for services rendered. Second, the owners or shareholders are taxed on any dividends they receive.

Raising capital. Usually, corporations are in the best position to raise additional capital. To raise funds, a corporation can borrow money, pledging corporate assets as collateral, or it can sell additional stock in the company. Of course, if the corporation has limited assets or has already pledged its assets, raising capital can be problematic even if you, as an owner, have a sound financial position.

Business continuity. Because they are legal entities, corporations have a separate and continuous life of their own. If a stockholder dies or sells her stock to another person, the corporation's life continues uninterrupted.

Subchapter S Corporation

Small companies can organize as a Subchapter S corporation, a legal form which has many of the advantages of a corporation yet is taxed like a partnership. Each shareholder reports her share of corporate income and any dividend she has received on her personal income tax return. The corporation files only an informational return, as does a partnership. Corporate earnings must be allocated in proportion to shareholdings and, if the company operates at a loss, the loss is deductible pro-rata by the stockholders, not by the corporation.

Su1

The basic qualifications which must be met in order to organize as a Subchapter S corporation are:

1. no more than 10 shareholders, all of whom are individuals;
2. there can be only one class of stock;
3. the business must be domestic and at least 20% of its gross receipts must come from U.S. sources;
4. the company cannot be a subsidiary of another corporation, nor can it own an 80% interest in another corporation; and
5. no more than 20% of its gross receipts in any taxable year can come from "passive investment" income, such as royalties, rent, or dividends.

1244 Corporation

Another option that new businesses organizing as a corporation should consider is the 1244 corporation which can be used along with the Subchapter S setup. The 1244 structure makes investment provisions that are useful to small corporations and work well in conjunction with the income provisions of the Subchapter S form. The basic advantage is that, if the corporation fails, a stockholder's investment of up to $25,000 is considered an ordinary rather than a capital loss, which means that it can be offset against the stockholder's ordinary income. Most small businesses choosing a corporate form can easily meet the qualifications for 1244 coverage.

Franchises

A franchise is basically a licensing and distribution agreement between a parent company, the franchisor, and the independent businessperson, the franchisee. The franchisee usually owns her business--which can be organized as a sole proprietorship, partnership, or corporation--and assumes operating responsibilities, subject to certain specifications by the franchisor. The chief advantages of a franchise arrangement are:

1. established goodwill and image of the business
2. proven products and methods
3. the franchisor will probably provide training and guidance in the company's policies and methods of operation. They often prefer that you have no background in the particular kind of business.
4. association with a national advertising campaign sponsored by the parent company
5. possible financial assistance

There are, however, disadvantages associated with franchises, including high franchise fees and restricted independence.

Summary of the Advantages and Disadvantages of the Three Basic Legal Forms of Business

SOLE PROPRIETORSHIP	PARTNERSHIP	CORPORATION
Advantages:	Advantages:	Advantages:
1. ease of formation and low start-up costs	1. ease of formation and low start-up costs	1. limited liability
2. owner in direct control	2. broader management base	2. possibly specialized management
3. all profits to owner	3. possibly better able to obtain additional capital than sole proprietorship	3. ownership transferrable
4. possible tax advantage	4. possible tax advantage	4. continuous existence
5. greater freedom from regulation	5. losses divided	5. possible tax advantage
6. minimal working capital requirements	6. limited outside regulation	6. possibly easier to raise additional capital
Disadvantages:	Disadvantages:	Disadvantages
1. unlimited liability	1. unlimited liability	1. closely regulated
2. lack of continuity	2. lack of continuity	2. extensive recordkeeping
3. may be difficult to raise additional capital	3. profits divided	3. usually most expensive and certainly most legally complex to start
4. limited management	4. possible difficulty in raising additional capital	4. double taxation
5. all losses to owner	5. hard to find suitable partners	5. charter restrictions which govern what the corporation can do

Franchise opportunities should be carefully investigated. One source of information available to the prospective franchisee is Franchise Company Data, which can be obtained free of charge from Sales and Distribution, U.S. Department of Commerce, Washington, D. C., 20230. This publication offers valuable information concerning various types of franchise operations; it details both what the franchisor can offer and what is expected of the franchisee. Before you enter a franchise agreement, consult your lawyer.

A Final Note

Whether you start a business alone or with associates, enter a franchise agreement, or buy an existing business, your decision should be carefully considered. The legal structure that you choose should be the one that best fits your business. Consultation with an accountant and/or lawyer is well worth the investment.

STAYING WITHIN THE LAW: Licenses, regulations, and taxes.

The owner of a new business must obtain licenses, comply with federal, state, and local regulations, and pay taxes. The degree to which your business is subject to regulation and the kind of taxes which it must pay depend on the type of business and its location. This fact sheet describes some of the laws with which business owners need to be acquainted, lists some permits and licenses which may need to be obtained in order to operate a business, and discusses taxes that must be paid by business owners.

Laws.

A number of federal and state laws that may be applicable to your business are on the books and you need to be aware of them in order to avoid very costly penalties and law suits. In general, businesses which engage in interstate commerce are subject to federal regulation, while businesses which operate only within one state need to be primarily concerned with state and local regulations.

Consumer Protection Laws

If you extend credit to customers, the Consumer Credit Protection Act, also known as the "Truth-in-Lending" Act, affects you. The purpose of this law is to assure a meaningful disclosure of credit terms so that the customer can easily compare available credit rates. You are required to use certain prescribed standard terminology to disclose credit terms.

If you are a manufacturer, wholesaler, or retailer who sells or advertises textile fiber products, "truth in fabrics" legislation applies to your business. This legislation requires that textile products be properly labeled and advertised.

If your business handles food, drugs, or cosmetics, you should be familiar with the Food, Drug, and Cosmetics Act. This law has regulations which apply to procedures for processing, packaging, testing, handling, labeling, and storing these kinds of products.

U.S. Postal Service laws prohibit the use of the mails to conduct fraudulent schemes or for any other purpose contrary to the public interest. Businesses which use the mails, particularly mail order firms, should be familiar with all postal regulations. The Postal Service Manual available from the Government Printing Office contains these regulations and includes lists of materials which are unacceptable for mailing.

Environmental Laws

There are a number of laws which are designed to protect the environment. Contact your trade association or government offices to determine what pollution laws and regulations, if any, apply to your business.

Laws Encouraging Competition

To encourage competition, federal and state laws prohibit or restrict some business activities, such as contracts, combinations, and conspiracies in restraint of trade; false advertising; and price discrimination between different purchasers of commodities of like grade and quality which injures competition. Federal laws govern interstate commerce, while state laws regulate intrastate commerce. For guidance on how these laws may affect you, talk to your lawyer, chamber of commerce, or business association.

Labor Relations Laws

There are both federal and state laws dealing with the settlement of labor disputes; wages, hours, and working conditions; fair employment practices; and economic security. If you have business employees, you should be familiar with these laws.

1. Labor disputes. Federal law guarantees the right of employees engaged in interstate commerce to organize and bargain collectively with their employer or to refrain from such activities. States have also enacted laws to uphold collective bargaining and to define unfair labor practices.

2. Wages, hours, and working conditions. The Fair Labor Standards Act provides for minimum wages, maximum hours, overtime pay, equal pay, and recordkeeping and child labor limitations. Whether or not your employees are covered under this Act depends on the facts of your business situation. You can check with the nearest office of Wage and Hour and Public Contracts Division of the Department of Labor for information.

It is your duty as an employer to provide your employees with a safe place to work; hire competent fellow employees; provide safe tools; and to warn employees of an existing danger. For details on safety and health standards which apply to your business, check with the nearest office of the Occupational Safety and Health Administration.

3. Fair employment practices. In hiring employees, it is unlawful to discriminate on the basis of race, religion, age, or sex. It is also illegal to pay men and women different wages and benefits for performing substantially the same work. You should know the federal and state standards established by fair employment practice laws before recruiting or hiring employees.

4. Economic security. Workmen's compensation laws, which vary by state, are designed to minimize losses an employee might incur as a result of industrial accidents or occupation-related diseases. The Social Security Act requires the employer to share in the cost of providing employees with minimum retirement benefits by paying a percentage of the employee's salary into Social Security. Federal and state legislation also requires businesses to pay unemployment taxes if certain minimum qualifications are met.

Self-Regulation

You should check with local, state, and federal authorities to learn which laws apply to your business. If you fail to keep informed and up-to-date on the law, you may have the government regulating your business for you.

Licenses and permits.

Licensing controls directly affect many small businesses. Licensing can be required at the federal, state, and/or local level, depending on the business. Most licenses and permits require payment of a fee and are issued annually. Generally, a written application is required.

Federal

Federal permits and licenses are required for businesses that use government property, prepare meat products to transport or sell, operate common carriers (for example, a moving company), construct radio or television stations, operate investment advisory services, or engage in certain other activities.

If you have employees, you must abide by minimum wage laws. A corporation which makes a public offering that involves the offer of stock in the company to more than 25 people must register with the Securities and Exchange Commission (SEC) and abide by its regulations. This is a legal requirement designed to protect the investor in your business.

State

In order to protect the consumer by ascertaining that certain minimum standards of professionalism and ability are met, some businesses are required to obtain a license from the State Department of Consumer Affairs. These businesses are usually service firms. For example, in many states barbers, employment agencies, and funeral parlors must be licensed. In addition, businesses selling liquor, real estate, banking, and insurance firms are often required to file with state agencies.

When the name of a business does not include the surnames of all the owners, implies the existence of additional owners, or varies from the corporate name, the fictitious trade name must be registered. This must be done to protect the business' creditors. You file a fictitious name statement with the county clerk within 30 or 40 days after opening your business, depending on the rules of your state. Usually, you are required by law to publish a notice of the fictitious trade name in a general circulation newspaper in the county where the business is located, for four weeks. An affidavit affirming publication must be filed at the county clerk's office within the next 30 days. The initial registration cost is usually about $10 and the county clerk can refer you to the cheapest, recognized paper in which to publish notice; publication costs average about $30.

A retail business operator must have a seller's permit. This permit allows you to buy tangible property for resale without paying a sales or use tax. You apply to the State Board of Equalization for a seller's permit (or resale tax) number; a security deposit may be required. If you are uncertain as to whether this permit will be needed for your business, ask the Board of Equalization for a ruling.

Wholesalers and manufacturers who sell tangible property that will, in turn, be resold to the retail consumer must record transactions on resale certificates. These certificates and instructions on their use are available from the State Board of Equalization.

Corporations which issue stock must file an annual statement with the secretary of state identifying the officers of the corporation and their addresses and the address of the principal officers of the corporation. If changes occur during the year, a new statement must be filed. This is required so that the corporation can be identified in case of legal proceedings. A small fee is usually required.

Businesses with employees should check with the State Department of Industrial Relations and, if applicable, unions to be sure they are meeting wage, contract, and safety requirements. They should also know the minimum wage stipulated by state law.

Local

Many small businesses are required to have a municipal or county business license or both. You can obtain these licenses at city or county hall.

Your business will operate in a precise locality in a specific community. It must conform to local zoning laws, comply with building codes, and measure up to the standards set by the health, fire, and police departments. City departments and agencies may require permits. The city council, local planning agency, or chamber of commerce can provide you with information on local requirements.

Taxes.

As the owner of a business you are responsible for seeing that the business' tax obligations are met. The penalties for late payment or nonpayment of taxes are costly. If your accountant handles the taxes for your business, be sure that you understand the business' tax situation. For information on taxes, you can check with the IRS, state and local tax agencies, the public library, trade associations, banks, and tax information services. Publication 334, "Tax Guide for Small Business," available from the IRS (see the "Optional Reading" list) is an excellent source of information on federal taxes.

Federal Taxes

1. Income Taxes

The sole proprietor lists all business income and deductions on an individual income tax return, Form 1040. Estimated tax returns are required during the tax year.

In a partnership, each partner reports her share of the business' income on her individual tax return. Although the business is not taxed, a federal information return must be filed on Form 1065.

Corporations are required to pay income tax and use Form 1120 to do so. Form 1120-W provides instructions on computing and paying the tax. Estimated returns will probably be required.

The investment tax credit allowed on the purchase of certain types of new and used equipment is an important federal income tax provision for new businesses. It allows the business owner to take a tax credit of up to 10% of the amount of the qualified investment and up to $100,000 on used property.

2. Self-Employment Taxes

Sole owners or partners are required to pay a self-employment tax based on their business income. This is computed on Schedule C-3 (Form 1040) and filed with your individual federal income tax.

3. Excise Taxes

Federal excise taxes are imposed on the sale or use of some items, on certain transactions, and on certain occupations. The highway use tax, levied on vehicles which meet minimum weight standards and operate on public roads, is an excise tax. Wholesale or retail dealers in beer and liquor are required to pay an excise tax. Occupations involving gambling, liquor, narcotics, and firearms must pay an excise tax.

If you think you may be liable for an excise tax, check with the IRS. If you are liable, a quarterly return is filed on Form 720 and semimonthly or monthly (depending on the amount you owe) deposits must be made.

4. Employers' Tax Liabilities

If you have any employees, you have additional tax liabilities. First, you must get an Employer identification number from the IRS by filing a Form SS-4. When you hire a new employee and at the beginning of each year, you should furnish employees with Form W-4, the Employee's Withholding Exemption Certificate. This allows the employee to indicate how many dependents she/he wants deducted and provides you with information necessary to calculate withholding.

You are required to withhold federal income taxes and social security taxes from your employees' wages. Social security taxes must be withheld and matched by the business. Withholding returns are filed quarterly on Form 941.

If you pay wages of $1,500 or more in any quarter of the business year or you had one or more employees on at least some portion of one day in each of 20 or more calendar weeks, you are liable for federal unemployment taxes and disability insurance taxes. These are filed on Form 940.

State Taxes

Tax requirements vary from state to state, but the three major types of state taxes are unemployment, income, and sales taxes. Be sure that you know your state tax liabilities and meet them.

1. Income Taxes

Sole proprietors pay state income tax to the Franchise Tax Board. Partnerships are required to file an informational return with the Franchise Tax Board. In some states, each partner must file an individual state income tax. Corporations are also required to pay a state franchise tax and they must pay an initial minimum franchise tax, due on the date of incorporation. Thereafter, the tax is based on net income for the preceding year and paid annually. Estimated returns, filed quarterly, may be required.

2. Sales Taxes

Many states have sales taxes which a business owner is required to collect and pass on to the appropriate state agency. The Board of Equalization can provide information on sales taxes.

3. Employers' Tax Liabilities

Each state has unemployment taxes, although the rules and requirements vary by state. Unemployment taxes are usually based on the taxable wage base of a quarter and are almost always paid only by the employer.

Most states have disability insurance which compensates an employee disabled by sickness or injury unrelated to the job. This money is deducted from the employee's paycheck and is remitted on the same quarterly return with unemployment.

If your state has a state income tax, you may be required to withhold taxes from your employees' paychecks.

Workmen's compensation insurance is required in many states. You can either take it out from your insurance agent or broker or from a state insurance fund.

Local Taxes

Counties, cities, and towns impose various kinds of taxes; one of them, mentioned earlier, is a license to do business. Other local taxes you may be liable for include:

a. real estate taxes, paid semiannually on land and buildings;

b. personal property taxes, paid annually on all tangible personal property including inventory, office equipment, supplies, tools, and leasehold improvements;

c. taxes on gross receipts; and

d. unincorporated business taxes.

Some localities--mostly large cities--have an income tax. Check with local authorities for information on your tax obligations.

SAFEGUARDING YOUR BUSINESS: Insurance needs.

Adequate insurance coverage is essential for your business. Without it, a lifetime of work--or a promising new business venture--can be destroyed overnight. Small businesses are rarely able to withstand major losses unless they have adequate insurance protection.

Entrepreneurs need to reduce high risk situations by making adequate plans. You want to insure against risks, such as fire, over which you have no control, yet avoid insuring against a loss that would be trivial or paying for protection which is so expensive that the premium costs a substantial proportion of the value of what you've insured. Being aware of the essential insurance needs of your business and choosing a sound insurance protection plan is as important to the business as a good marketing plan or a good financial plan.

This fact sheet lists and briefly explains essential and optional types of business insurance and includes pointers on managing and buying your insurance.

Essential Insurance

While insurance needs vary, depending on the type of business, there are four basic types of insurance that every business needs: fire, general liability, automobile liability, and workmen's compensation.

1. Fire insurance covers damages to your business premises, equipment, and inventory. It can also be expanded, at relatively small additional cost, to include other dangers, such as windstorm, smoke, vandalism, and explosion. If you rent your business site, find out what coverage your landlord carries; generally, her/his policy won't cover your equipment and inventory.

2. General liability insurance protects the business from financial loss due to bodily injury or property damage to employees or clients that occurs at your place of business. You can also get coverage for personal injuries, such as libel or slander.

3. Automobile liability insurance is required by law in most states. When an employee or subcontractor uses her/his car on behalf of your business, you can be legally liable.

4. Workmen's compensation insurance pays an employee for time lost because of work injuries and work-related sickness. While workmen's compensation is legally required in only about half of the states, it's good to have for your legal defense in employee suits. If your business is a sole ownership or partnership and you have no other full-time employees, you don't need this insurance.

Optional Insurance

There are many other kinds of insurance, some of which may be important for your business:

1. Business interruption insurance covers fixed expenses (salaries, taxes, utilities, etc.) that would continue if, for example, a fire closed your business. Profits that would be lost in such a situation are also covered. If you have properly written contingent business-interruption insurance, you can also collect if fire or peril shuts down a supplier's or customer's business and this, in turn, interrupts your business.

2. Crime insurance is essential in some areas and businesses. While crime insurance normally covers burglary and robbery, comprehensive crime policies written just for small businesses are available that also cover theft, destruction, the disappearance of money or securities, and thefts by employees.

3. Employee benefit coverages can help attract employees, reduce employee turnover, and create good employer-employee relations. Major kinds of coverage include:

   a. group life insurance. You can get low group rates even if you have 10 or fewer employees. Furthermore, if you pay group insurance premiums and cover all employees up to $50,000, the cost to you is deductible for Federal income tax purposes, yet the value of the benefit is not taxable income for your employees.

   b. group health insurance. A "group" can be as few as two people. Group health insurance costs much less and provides more generous benefits for the worker than do individual contracts. If you pay the entire cost, you can't drop individual employees unless the entire group policy is cancelled.

   c. disability insurance. Premiums are low and it covers an employee for the time she/he loses because of disabilities incurred off the job.

   d. retirement insurance. If you are self-employed, you can get an income tax deduction for funds for retirement for you and your employees through plans of insurance and annuities approved for use under the Self-Employed Individuals Tax Requirement Act of 1962 (Keogh Act).

4. All-risk insurance is designed for retailers and wholesalers and covers your entire stock of goods from all perils, except those specifically excluded by name in the policy.

5. Glass insurance covers plate-glass windows, glass signs, glass doors, showcases, countertops, and insulated glass panels. It covers the glass itself and lettering and ornamentation, if these are specifically insured, as well as the costs of temporary plates and boarding up when necessary.

6. Rent insurance will pay your rent if the property you lease becomes unusable as a result of fire or some other insured peril, yet your lease requires that you continue to pay.

7. Transportation insurance covers shipments of goods during transport.

8. Key person insurance compensates the business when any partner or individual essential to managing the business becomes incapacitated or dies.

9. Bonding shifts the responsibility for a specific job or employee to a licensed bonding company or insurance firm.

    a. Fidelity bonds protect the business owner from theft or embezzlement. There are three types of fidelity bonds: 1) individual bonds which name a single person; 2) schedule bonds which list all names or positions to be covered; and 3) blanket bonds which cover all employees but don't identify them by name or title, which means blanket bonds are unaffected by personnel changes.

    b. Surety bonds guarantee that an employee will carry out the specific job she/he was hired to do. Surety bonds are often used in the construction business to allow bonded small contractors to compete against larger companies in bidding for jobs.

Tips for Good Risk and Insurance Management

1. Write a clear statement of what you expect insurance to do for your business.

2. Select only one agent. (The fact sheet, "Obtaining Business Advice and Assistance" discusses the selection of an insurance agent or broker.)

3. If a partner or employee is responsible for your business' insurance, make sure she/he understands the responsibility.

4. Do everything possible to prevent losses and to keep those that do occur low.

5. Don't withhold information from your insurance agent.

6. Don't try to save money by underinsuring or not covering some perils that could cause a loss. If the risk really is low, the policy will also be low. On the other hand, don't overinsure; you can only collect the amount of your actual cash loss.

7. Keep complete records of policies, premiums paid, losses, and loss recovery in a safe place. This can help you get better coverage at lower costs in the future.

8. Have your property appraised periodically by an independent appraiser. This will keep you informed as to what your exposures are so that you can make certain you have adequate coverage, and it will also enable you to prove actual losses if they occur.

Guidelines for Buying Insurance Economically

1. Decide what losses you need to insure against and how much you could lose from each.
2. Cover the largest potential loss first.
3. Use as high a deductible as you can afford.
4. Avoid duplication.
5. Buy insurance in as large a unit as possible, i.e., "package policies."
6. Review your insurance program periodically to be sure insurance coverage is adequate and premiums are as low as possible and consistent with sound protection.

Hints

- You can insure property you don't own, if you have a financial interest in the property when a loss occurs. For example, a repair shop can carry insurance on customers' property that is in the shop.
- Mail order businesses should include their mailing lists in their insured assets. Keep a duplicate copy elsewhere in a fireproof location.
- Retailers, as well as manufacturers, may want to consider carrying product liability insurance. When a law suit comes up, everyone involved in any way is usually named.

Business failures can frequently be traced back to inadequate records. Because it affects all aspects of the business, poor recordkeeping can cause more havoc than any other management mistake. Your business records provide the basic information that you need to make sound decisions and solve management problems. They can tell you how much profit the business is making; how much the business owes its creditors; how much credit customers owe the business; how much tax should be paid; and how much the business is worth. Good business records also allow you to analyze sales, spot trouble areas promptly, prepare for seasonal variations, and predict future earnings. In addition to providing you with the information you need to operate a successful venture, you must have records to substantiate:

1. your returns under Federal and State tax laws, including income tax and social security laws;
2. your requests for credit from suppliers or loans from banks;
3. your insurance claims in case of loss; and
4. your claims about the business should you decide to sell it.

Remember, in dealing with the IRS, it is your responsibility to maintain and prove the accuracy of your records.

Setting Up and Maintaining Records

An accountant can set up a bookkeeping system for your business or she can adapt an existing system to meet your needs. Wholesalers, manufacturers, and trade associations often can provide guidelines or simple accounting systems that are tailored to the needs of a particular industry. Stationery and office suppliers have ready-made systems that you can purchase.

Although an outside firm may design the recordkeeping procedures for your business, the task of keeping daily records as transactions occur falls on the business. The owner may choose to keep the records and she often does, especially in the business' early stages. However, the owner must be sure that she isn't neglecting organizational or managerial duties by keeping the records herself. When the business can afford employees, an assistant or a part-time bookkeeper can be given the job of keeping the records, as long as her/his work is checked periodically by the owner and/or her accountant. Either monthly or quarterly these daily records will be compiled into your business financial statements. (The LAPs on "Finance" will discuss this in more detail.)

What records should you keep? While the IRS does not prescribe specific accounting records, documents, or systems, they do require that you maintain permanent books of account or record which can be used to identify the firm's income, expenses, and deductions. These records must be accurate and must be available for inspection. In general, the simpler the accounting system you use, the better. The kind and amount of records you will need to maintain depends on the type of business you are operating. Nonetheless, there are some basic, essential records which must be kept in any business.

Essential Records

1. Business checkbook. Keep your business and personal checking accounts entirely separate from one another. All funds going in and out of the business should go through the business checking account. On the stub for each check that you write enter the full details, including the number, amount, and date of the check, to whom payment was made and why. This is your only proof of payments made. Bring the balance forward in your checkbook after each check is written or a deposit is made. Reconcile your bank statement monthly, checking it against your receipts and disbursements journals.

2. Cash receipts journal. This is a record of all money taken in by the business. You should keep income from business receipts which must be reported as "gross receipts" or "gross sales" separate from income not realized from sales, such as advertising allowances provided by the supplier, and from sales taxes you collect.

   You may prefer to keep a daily cash receipts summary and to post the information monthly in a permanent ledger. The daily cash receipts summary is a summary of all cash received by the business that day and looks like this:

   Date __________

   Cash sales for day $__________

   Total cash received on accounts receivable $__________

   Total deposit in Business checking account $__________

   This should be recorded daily, since all money accounted for on the daily receipts summary should be deposited daily. It is your only record of daily receipts.

3. Cash disbursements journal. The cash disbursements, purchases, and expenses journal is also called an expenses ledger. It is a record of all cash and checks paid out of business funds for expenses such as rent, payroll, office supplies, and merchandise. Each entry should show the nature or classification of the disbursement.

4. Petty cash fund. A business establishes a petty cash fund so that some payments which are too small to justify writing a check can be made in cash, yet documented for tax purposes. A few dollars

each day can add up to a substantial sum by the end of the year. The steps involved in setting up and running a petty cash fund are outlined below:

1) Decide on the amount you want to keep in your fund and write a business check in that amount payable to petty cash.

2) Deposit the money in a petty cash box and, each time you use any of it, write out a petty cash or voucher slip describing the purchase, to whom the money was paid, and the amount. If you are given a receipt, attach it to the slip.

3) Deposit the slip in the box. The total of the cash and the amounts recorded on the slips should equal the sum you put into the petty cash fund.

4) As the fund begins to run low on cash, write another check to bring it up to the total amount of the fund.

Other Records

1. Accounts receivable register. If your business makes credit sales, you should record the balances owed the company in an accounts receivable register. This record allows the owner to keep a running total of amounts owed and paid by each customer who purchases on credit. You can use a loose leaf binder with a separate page for each customer that looks like this:

Customer Jane Portland

Date	Details	Amount
1/3/77	credit purchase – sales slip #12	$\$150^{00}$
1/15/77	cash received – ck #829	130^{00}
		20^{00}
2/20/77	credit purchase – sales slip #105	85^{00}
		105^{00}

You should enter these credit sales each day. This is your only record of credit sales and of how much various customers owe the business.

2. Payroll records. This is a record you must keep if you have employees. It allows you to keep track of payroll expenses and, thus, helps with future planning. You must also have a record of the exact figures for deductions of Federal, State, and other taxes in order to meet legal requirements. Your record should list hours worked, wages earned, and withheld deductions for each employee.

3. Fixed assets. This is a record of all equipment, buildings, office furnishings, vehicles, and other depreciable business assets. If your business has any fixed assets, you should have

a record of them. This list is the basis for calculating depreciation for tax purposes.

4. Inventory purchase journal. If your business has an inventory--and most do--you should keep a record of your investment in merchandise and raw equipment. This journal should list shipments received, accounts payable, and cash available for future purposes.

5. Accounts payable. This is a record of what a business owes its creditors and suppliers and, unless all your purchases are made with cash, you should keep it.

Cash or Accrual Basis for Records

There are two systems of recording income and expenses. The cash method shows only receipt of income (cash) and actual disbursements (expenses). While this method works well for some small businesses, if you rely heavily on credit, it won't provide a good reflection of your profits and losses during a specified time period.

The accrual method reports all transactions which take place during a specified time period, whether or not payments have been made yet.

Keeping Records

There are government regulations that govern the minimum time some business records must be kept. Each state has a statute of limitations which requires you to retain certain documents, such as cancelled checks, vouchers, and receipts, for a minimum period. This statute of limitations ranges by state from 3 to 20 years, but averages six years. Some records must be kept as long as their contents may be material in the administration of any Internal Revenue law. Unless you have omitted over 25% of gross income on your tax form or filed a false or fraudulent return, these records cannot be requested after 3 years have elapsed from the date your taxes were paid. The three year period is a minimum and many business records should be kept longer.

Some business documents and records should be kept permanently and these include:

- a copyright, trademark registration, or letter of patent
- depreciation schedules (Equipment maintenance records and warranties should be kept for the life of the equipment.)
- insurance policies
- financial statements (balance sheets and profit-and-loss statements)
- the general ledger and journals
- audit reports and copies of income tax returns

- if incorporated, corporate by-laws, minutes of stockholders' meetings, and annual reports.

It is usually recommended that the records listed below be retained 6 or 7 years:

- accounts payable and receivable
- cancelled checks
- inventory schedules
- payroll records
- sales vouchers and invoice details
- contracts and leases (unless renewed periodically)

Your accountant or lawyer can help you determine how long your various business records should be retained. You should be sure that certain records are kept in a safe place and these include current financial statements and tax returns; any records for insurance collection, reporting losses for tax reductions, and borrowing money; and lists of customers, suppliers, inventory, and equipment that you would need to rebuild your business after a fire.

Recordkeeping Hints

- Retain receipts for all business expenses.
- You can make sure you have enough money on hand to pay your taxes by setting up an auxilliary bank account reserved for taxes.
- Always subtract the owner(s) salary from gross profits along with other operating expenses to avoid distorting the profit reading of the business.
- Keep your records in pen and, if mistakes are made, cross them out instead of erasing them.

The majority of small businesses fail and almost all of these failures are due to management mistakes and errors. When your business first starts, you will probably be handling all aspects of your business' operations, from ordering supplies and materials to keeping tax records. As a new business owner, you won't have all the knowledge that is needed to run a business. Because you will probably have a limited amount of capital, you won't have much room to learn on a trial and error basis. One way to avoid making costly mistakes is to make use of information, assistance, and expertise that are available to you. You need to carefully assess your personal managerial strengths and weaknesses and decide for which aspects of your business you will need to seek assistance.

Interestingly, many small business owners don't seek help. It may be that because entrepreneurs tend to be very independent people, they simply aren't willing to admit they can use help. Business owners are also very busy, especially when they are trying to cope with unexpected problems, and they may not be willing to make the time to get the help they need to handle these problems and to avoid other difficulties. Small business owners may see getting help as too expensive, as more than they can afford until their business is running smoothly and making a good profit. A great deal of assistance is available free of charge and, if you must pay for the help you need, look at this expense as an investment, as spending money in order to make money. Of course, a major reason entrepreneurs may not seek help is because they don't know about the assistance and information that is available or what these sources of help can do for them.

The fact sheet on "Marketing Research Information Sources" you read earlier suggests a number of resources that are available to the small business owner. You should also be familiar with the additional "expert" resources discussed below. The four professionals most small business owners need to consult in the start-up stages are an accountant, an attorney, a banker, and an insurance agent.

Accountants

An accountant helps you to effectively manage the financial end of your business. An accountant can perform a number of services and the kind and amount of assistance you request will vary according to your experience, the time you have available for dealing with this aspect of your business, and how comfortable you feel handling finances. In the start-up phase of a business, an accountant can compute the initial capital outlay that is required; figure out profit potential and establish the break-even point; help set a pricing formula; set up a bookkeeping system that fits your needs; draw up and teach you to read financial statements; advise you on a legal structure; introduce you to a banker; and help you obtain a loan by preparing financial projections and vouching for you. Once your business is in operation, your accountant can prepare and interpret financial statements and prepare your tax returns. She/he can provide advice on cash requirements, budget forecasting, borrowing, and taxes that will improve your business' financial position. If outside stockholders or lending institutions require you to conduct business audits, a Certified Public Accountant (CPA) can audit your records.

Select your accountant carefully, because it's an important choice. Poor accounting results in unreliable information on which to base business decisions. There are two kinds of accountants, CPA's and Public Accountants. Unless you need audited records, a Public Accountant can perform the services you need and will probably charge less than a CPA. In conducting an audit your accountant must compile outside confirmation of your business records and, because this can be a time-consuming and expensive process, audits are only performed in small and moderate-sized businesses if stockholders or lending institutions require it.

The best way to find an accountant is through first-hand recommendations from business associates, such as bankers and lawyers, or other small business owners. Talk to all the accountants who are recommended to you: compare experience in the field and fees and check out references. You want someone who's knowledgeable about and experienced in your type of business, who will sit down with you and explain your business' financial statements, and who will give you tax advice during the year. Look for a person whom you respect on a personal and professional level and with whom you'll enjoy working.

When you have decided on the accountant whom you feel is best qualified to meet your requirements, ask for an engagement letter that spells out what services you can expect and the fees for these services. Fees may be based on hourly, daily, or monthly rates and vary according to the type and amount of services. The hourly rate can range from $15 to $60.

Attorneys

In the start-up phase of your business, an attorney can help you choose the best legal form for your business; suggest methods of capitalization; make sure all the necessary forms have been filed with city, county, and state governments; explain any governmental regulations and ordinances that affect your business; and interpret contracts and leases for you. Your lawyer can advise you of your legal rights and obligations; recommend bankers, accountants, and other professionals; and help you on tax matters. She/he can also assist you with credit problems, by handling litigation, and in selling the business. The best policy is to develop a continuing relationship with a lawyer rather than using one only in emergencies. A lawyer's advice and suggestions on operating your business allow you to make informed decisions, as well as preventing the development of crisis situations.

Before you start your search for an attorney, decide what kind of legal help you will probably need. If you foresee no problems which require a high degree of legal specialization, a general practice lawyer may be the best attorney for your business. You can ask your banker, accountant, or other business owners for references. The Martindale-Hubbel Legal Directory lists attorneys by city, legal specialty, financial standing, and a rating by their colleagues; the local bar association can also provide referrals. You are looking for the lawyer or law firm that is best equipped to handle the particular needs of your business. You want someone with proven legal ability and experience who can provide prompt and efficient service and who charges a fair fee. Look for a lawyer with whom you can have a long-term relationship --someone you respect, who will be available to you, and whom you know you can trust. Find out what other clients they represent: are they interested in small businesses and will they have time for your "little" problems? Try to find a lawyer who is willing to grow with you; a successful business requires a great deal of legal work, so sell the lawyer on your future. Legal fees vary widely according to the going rates in a particular part of the country and the complexity of the legal problem. In general, fees reflect the opinion of the lawyer and of his clients as to what her/his services are worth. Hourly fees commonly range from $35 - $100.

Once you have chosen an attorney, work with her/him to make certain that she/he has all the information necessary to do your legal work and so that you know what your lawyer is doing.

Bankers

The best time to go see a banker is after you have clearly thought out your idea and written out a thorough and realistic business plan. A banker can give you information about the economic conditions and trends in your community and may be able to refer you to other institutions and individuals that can help you. Your banker can offer useful management and financial advice on capitalization, borrowing money, establishing credit lines, starting checking accounts, and other funding or bank services that may be of interest to you. If you don't have an accountant, your banker can give you advice on preparing tax and special financial reports.

In looking for a bank whose services match your business' needs, start out by visiting the bank where you have your personal checking account or banks near the location you are considering for your business. Your accountant, lawyer, landlord, trade association, or other local business owners may suggest a particular bank. In choosing a bank, you should consider: 1) the convenience of its location; 2) size, if you think you will need large loans; 3) its requirements on loans; 4) its officers' knowledge about your type of business; and 5) whether many of your customers use that bank. You may want to visit officers at several banks and then compare bank information and the attitudes of the bankers you interviewed in order to select the one that you believe best serves your needs. If your deposits in the bank are large enough, there will be no charge for additional services. If this is not the case, charges are negotiable.

Insurance Agents or Brokers

An insurance agent or broker can evaluate your insurance needs and set up an insurance package to fit your business. She/he can tell you which kinds of insurance you are legally required to carry and help you plan for your future insurance needs. The fact sheet "Safeguarding Your Business: Insurance Needs" explains some of the types of insurance coverage you will want to discuss with your agent.

You can ask business friends and others who have experience with different agents for recommendations. Trade associations often offer special rates and policies to their members. Talk with several agents, comparing the coverage and costs of insurance they offer and choose the program that, comprehensively and economically, best fits your business needs. Before you choose an agent, you should know the answers to the following questions:

1. Are the agent's contacts sufficiently wide to supply all the coverage you need at reasonable prices?

2. Is she/he known as a competent, professional person?
3. Will she/he devote enough time to your individual problems to justify the commission you're paying?
4. At no extra cost will the agent survey your entire situation and recommend alternative methods of insurance, pointing out the advantages and disadvantages of each?
5. Does she/he have a good reputation of service to clients in time of loss?

You need to provide your agent with complete information about your business and you must inform her/him of any changes that will affect your insurance coverage. The agent's fee comes out of your insurance premiums and there is no additional charge for advice.

Management and Marketing Consultants

Consultants specializing in small business can give you information and assistance with specialized problems, such as advertising, pricing, personnel relations and inventory. Their expertise and experience can help you take care of details and avoid pitfalls you might never have considered. Consultants also have access to other sources of information and maintain contacts with lawyers, accountants, and advertising agencies.

You can locate consultants through professional organizations, other business owners, and the Yellow Pages. The SBA may have suggestions and, through SCORE (Service Corps of Retired Executives), can provide volunteer consultants who charge only their out-of-pocket expenses. When you and your consultant have agreed upon what she/he is to do for you, you can ask her/him to quote you a price for this service. Consultants usually charge on an hourly, daily, or weekly basis--or on a monthly "retainer."

General Guidelines

You should incorporate the use of consultants to guide your business' development and growth into your long-range planning. Consultants can look at your business objectively and help you avoid problems in the future. Recommendations are the best way to find consultants. Check with business friends and associates, suppliers, lawyers, accountants, bankers, and trade associations. They can supply you with good leads, suggestions, and warnings.

In choosing experts, look for individuals who are knowledgeable about small business in general and about your type of business in particular. Check the reputation of a consultant you are considering hiring. Request a list of other firms for whom she/he has done work similar to the work you are requesting and check out her/his qualifications and experience by talking with these clients. In making arrangements with an expert, be sure that you understand one another and that she/he is truly interested in you and your business. If you will be charged for an expert's time and services, make certain these costs are clearly established at the start. However, you should be more concerned with the calibre of work than with the fee. Good advice will save you money, while poor advice costs both the consultant's fee and lost profits.

While you don't want to overuse or rely too heavily on these resource people, you should establish an ongoing relationship with them: keep in touch and keep them informed about your business.

LEGAL FORM OF BUSINESS

This worksheet is designed to help you decide on the legal form of your business. Keep in mind that this initial decision may not be final. Not only will your business grow and alter its operation, over time, but financial and tax situations may modify the advantages and disadvantages of the various legal forms of organization.

The six important points to consider when deciding on the legal form of your business are:

- costs and procedures for starting
- investor's liability for debts and taxes
- adaptability of management
- attraction of additional capital
- effects of applicable laws
- continuity of the business

1. Do I have enough money to start my business on my own, or do I need to consider another form of business in order to bring in additional capital?

2. What skills are needed in starting and operating my business that I can't provide? Ask yourself: How good am I at marketing, sales, finance, and technical knowledge needed in this kind of business?

3. How much control do I want to have over the final decisions in my business and in the day-to-day operation of my business?

4. How much personal liability for debts or claims am I willing to assume for my business?

5. How will my business continue if I'm incapacitated for a period of time?

6. If I have a partner(s), will she/he be a "silent" partner or someone who is active in the business?

   If I choose to structure the business as a general partnership, what will the duties of the different partners be, how will decisions be made, and how will we divide the profits or losses?

7. Do you feel you will need to consult an attorney for advice or services before deciding on a legal form of business?
   Yes No

8. At this point, what legal form of business do you think you will choose for your business?

9. List three to four reasons for your choice.

GOVERNMENT REGULATION AND TAXATION

Answer the following questions on the basis of the reading you have done and after doing any necessary research.

1. Give examples of two business names, one of which would require the registration of a factitious trade name and one of which would not.

2. What is the minimum federal wage?

   What is the minimum wage required by state law?

3. Are business licenses required by the municipality and/or county in which you plan to open your business?

   Where would you go to obtain these licenses?

4. What licenses and permits will you be required to obtain for your future business?

5. As owner of the business you plan to open, what federal taxes would you be required to pay?

   What state taxes would you be liable for?

INSURING YOUR BUSINESS

Su8

The first step in deciding what kinds of insurance your business will need is to determine what losses it is subject to and what effect these losses would have on the business.

1. What risks does your business face?

2. Rate each risk you have listed according to how likely it is to happen, from most to least likely to occur.

3. Rate each risk you have listed according to the size of the loss which would result if it happened, from largest to smallest potential loss.

4. Divide the risks into two types, controllable losses and losses beyond your control. List each risk in the appropriate column.

Controllable	Uncontrollable
Example: Theft	Example: Earthquake

5. Indicate the types of insurance coverage you think you will need for your business using the lists provided in the factsheet on insurance.

This worksheet contains the information and forms necessary to perform the recordkeeping work for Joan's Hardware for January 15. Balance the business checking account using the bank reconciliation statement, complete the daily receipts summary, write the necessary business checks, make entries in the accounts receivable register, and complete the individual payroll records and the summary payroll record for the business. (Hint: When completing these forms, make the daily deposit to the business checking account before writing any checks.)

The following are the actual checks written and the deposits made according to Joan's Hardware records.

Checks

Date	Check Number	Amount
January 10	90	$ 90.00
January 10	91	30.00
January 11	92	130.00
January 11	93	250.00
January 11	94	40.00
January 11	95	130.00
January 12	96	120.00
January 12	97	170.00
January 13	98	110.00
January 13	99	280.00
January 14	100	120.00

Deposits

Date	Amount
January 10	$400.00
January 11	260.00
January 12	300.00
January 13	300.00
January 14	110.00

The bank statement received by Joan's Hardware from the Urbana National Bank dated January 14, 19____, is presented below.

URBANA NATIONAL BANK

January 14, 19_____

Date	Checks and Deposits	Amount		Balance
			Beginning	$200.00
January 10	Check No. 90	$90.00		110.00
January 10	Check No. 91	30.00		80.00
January 10	Deposit	400.00		480.00
January 11	Check No. 93	250.00		230.00
January 11	Check No. 95	130.00		100.00
January 11	Deposit	260.00		360.00
January 12	Check No. 97	170.00		190.00
January 12	Deposit	300.00		490.00
January 13	Check No. 98	110.00		380.00
January 13	Check No. 99	280.00		100.00
January 13	Deposit	300.00		400.00
January 14	Check No. 100	120.00		280.00
			Bank service charge	2.00
			Current balance	$278.00

The following are business transactions for Joan's Hardware on the day of January 15, 19____. The business checking account balance as of January 14, 19____, was $98.

a) Cash sales totaling $465.

b) Credit sales to Mr. Jones (invoice No. 112) totaling $45.

c) Received a check (No. 847) from Mr. Jones for payment on his account in the amount of $20.

d) Credit sales to Mrs. Wilson (invoice No. 113) totaling $15.

e) Paid Acme Supply Company for shipment of nails received with check No. 101 in the amount of $86.

f) Paid Peterson Company for shipment of tools received with check No. 102 in the amount of $100.

The following information is necessary to complete the weekly payroll records for Joan's Hardware:

Employee: Bart Nelson **Social Security Number:** 000-00-0000

Hours worked: Monday — 8 hours
Tuesday — 4 hours
Friday — 8 hours

Regular pay rate: $3.00 per hour

Social Security Deduction: $3.60

Federal Income Tax Deduction: $6.00

State Income Tax Deduction: $1.40

• • • • • • • • • • • • •

Employee: Rita Simpson **Social Security Number:** 000-00-0000

Hours worked: Wednesday — 4 hours
Thursday — 4 hours
Saturday — 4 hours

Regular pay rate: $3.00 per hour

Social Security Deduction: $2.10

Federal Income Tax Deduction: $3.50

State Income Tax Deduction: $ .90

Business Checks

Check No.________ $________
Date ________________________
To ________________________
For ________________________
____
____

Bal. Bro't. For'd. ________
Amt. Deposited ________
TOTAL ________
Amt. this check ________
Bal. Car'd. For'd. ________

URBANA NATIONAL BANK
Urbana, Illinois

Check No. 101

Date________________

Pay to the order of ______________________________ $________

____ dollars.

JOAN'S HARDWARE

____

Check NO.________ $________
Date ________________________
To ________________________
For ________________________
____
____

Bal. Bro't. For'd. ________
Amt. Deposited ________
TOTAL ________
Amt. this check ________
Bal. Car'd. For'd. ________

URBANA NATIONAL BANK
Urbana, Illinois

Check No. 102

Date________________

Pay to the order of ______________________________ $________

____ dollars.

JOAN'S HARDWARE

____

Accounts Receivable Register

Customer ________________

Date	Details	Amount

Customer ________________

Date	Details	Amount

Payroll Records

Employee ______________________ Social Security Number ______________

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Reg. Rate Per Hr.	Ttl. Reg. Pay	Overtime Hrs.	Overtime Rate Per Hr.	Ttl. Overtime Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1																				
Week 52																				

Employee ______________________ Social Security Number ______________

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Reg. Rate Per Hr.	Ttl. Reg. Pay	Overtime Hrs.	Overtime Rate Per Hr.	Ttl. Overtime Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1																				
Week 52																				

Summary Payroll Record

	S	M	T	W	Th	F	S	Ttl. Reg. Hrs.	Ttl. Reg. Pay	Overtime Hrs.	Ttl. Overtime Pay	Ttl. Gross Pay	Soc. Sec. Ded.	Fed. Inc. Tax	State Inc. Tax	Other Deductions	Total Deductions	Net Pay
Week 1																		
Week 52																		

Daily Receipts Summary

Date ______________

Cash Sales for the Day $__________

Total Cash Received on Accounts Receivable $__________

Total Deposited in Business Checking Account $__________

Bank Reconciliation Statement

Balance shown on bank statement $________

add deposits not credited:

____

$________

subtract outstanding checks:

____

Adjusted balance per bank statement $________

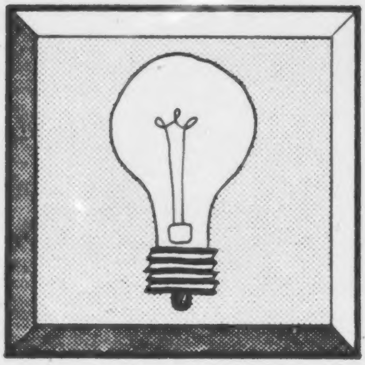
Balance as shown in checkbook $________

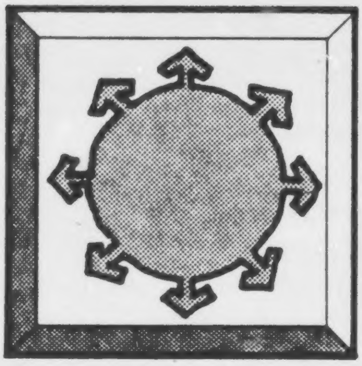
subtract:

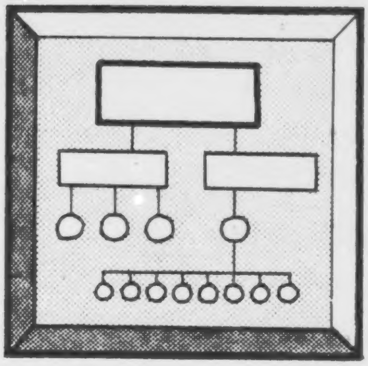
bank service charge ________

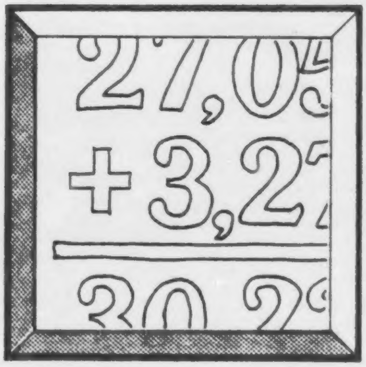
Adjusted checkbook balance $________

Fp









Finance 1

Financial Planning

One of the most important questions you need to ask yourself when thinking about starting a small business is: How much money will I need? The answer to this question will help you decide whether you can realistically start a small business with the money you have available, or whether you will need to try to obtain financing for your business. The answers to these important questions will need to be translated into financial statements which are an essential part of your business plan and a loan package.

It is also important to the future of the business that you be able to adequately perform financial management tasks. These tasks include: 1) reading and analyzing financial statements; 2) determining the financial strengths and weaknesses of a business; 3) planning any necessary correction action; and 4) developing cash forecasts for the business.

This LAP will familiarize you with the important financial statements and how to use them and then help you estimate your initial start up costs. Finally, it will provide you with financial statement worksheets which can be used as you develop your business plan and possibly your loan package.

When you have completed the Financial Planning LAP you will be able to:

1. Estimate your initial money needs to start your business.
2. Decide whether you have enough money to start your business or whether you will need to obtain financing.
3. Identify the important financial statements for a successful small business.
4. Use key financial terms and concepts in preparing a simplified income statement and balance sheet for a given business.
5. List at least two sources of information for obtaining estimates of cost of goods sold, gross margin and operating expenses for a given business.
6. Begin to collect the information and prepare projected financial statements for your business.

Before your next class. Review the materials included in the LAP. Read the three fact sheets, "Estimating Your Money Needs," "Understanding Financial Statements," and the "Key Ratios and Financial Analysis."

The materials that should be included in your LAP are:

- Fact Sheets:
    - Estimating Your Money Needs
    - Understanding Financial Statements
    - Key Ratios and Financial Analysis
- Worksheets:
    - A Business Profile
    - Financial Statement Worksheets:
        - Start Up Costs
        - Estimated Monthly Expenses
        - Estimated Income Statement for Retailers or Service
        - Estimated Income Statement for Manufacturers
        - Projected Balance Sheet
        - Projected Cash Flow Statement

Optional Reading

Bank of America. Financing small business. Small Business Reporter, 13 (8), 1976. An excellent guide to use in developing your financial plan. Useful in any type of business.

Bank of America. Beating the cash crises. Small Business Reporter, A special report, 1975. A useful guide for the business owner who needs information on analyzing cash flow problems.

Bank of America. Understanding financial statements. Small Business Reporter, 7 (11), 1974. A more advanced guide for understanding financial statements. Primarily in chart form.

Business plan for small construction firms. SBA: Management Aids for Small Manufacturers, No. 221, 1974. Pages 12-16 cover financial planning.

Business plan for small manufacturers. SBA: Management Aids for Small Manufacturers, No. 218, 1973. Pages 13-17 cover financial planning.

Business plan for retailers. SBA: Small Marketers Aid, No. 150, 1972. Pages 15-22 cover financial planning.

Business plan for small service firms. SBA: Small Marketers Aid No. 153, 1973. Pages 14-21 covers financial planning.

Campbell, D.S. Controlling Cash in Small Retail and Service Firms. SBA: Small Marketers Aids, No. 110, 1973. This pamphlet is useful for the small service and retail owners. It discusses several steps which are helpful in controlling cash flow.

Cash flow in a small plant. SBA: Management Aids for Manufacturers No. 229, 1976. This pamphlet is useful for the small manufacturer who wants to to learn more about cash flow.

Metcalf, W.O. Starting and managing a small business of your own. SBA: The Starting and Managing Series 1, 1973. A comprehensive guide that covers all aspects of starting a business including financial planning (pages 13-28).

Zwick, J. A handbook of small business finance. SBA: Management Series, 15, 1975. A comprehensive guide to understanding financial planning and obtaining financing for a new business venture.

ESTIMATING YOUR MONEY NEEDS

To estimate the amount of money you need to start your business first try to obtain typical operating ratios for the kind of business in which you are interested. Among the sources for such ratios are Robert Morris Associates, Dun & Bradstreet, Inc., The Accounting Corporation of America, trade associations, publishers of trade magazines, specialized accounting firms, industrial companies (for example, National Cash Register Co.), commercial banks, and colleges and universities. The typical ratios for your type of business multiplied by your estimated sales volume will provide you with guides for estimating your expenses. However, you should not rely solely on typical operating ratios for estimating your expenses. You should also check these typical estimates with similar businesses in the particular market area where you plan to operate.

The sections below discuss the various estimates you need to arrive at in order to complete the "Estimated Monthly Expense" worksheet and the "Start-Up Costs" worksheet.

Sales Volume

You first need to estimate your sales volume. The amount of business you will do the first year depends on the total amount of business in the area, the number and ability of competitors now sharing that business and your own capability to compete for the consumer's dollar. You may obtain assistance in making your sales estimate from wholesalers, trade associations, your banker, and other business persons. The advice of others can be compared with your independent estimate of what you believe is needed to make the effort worthwhile to you.

In reaching your final estimate of sales volume for the first year, do not be overly optimistic. A new business generally grows slowly at the start. If you over estimate your first year's sales volume you are likely to invest too much in equipment or initial inventory and thus commit yourself to heavier operating expenses than your actual sales volume can justify.

Operating Expenses

Typical operating expenses for a particular type of business can be obtained from one of the above mentioned sources. These typical expense ratios are presented as a percentage of your sales volume for the year. Therefore, if you plan to use these ratios on your "Estimated Monthly Expense" worksheet you must divide each expense figure by twelve. If you know that a particular expense is going to run unusually high during your first months of operation you should raise your estimate accordingly.

Some small business owners draw a regular monthly salary and take out the rest of their net profits either at irregular intervals, or regularly at the end of each year. Others reinvest a part of the net profits in the business. In any event a regular living allowance should be made for your salary and entered as the first item of expense on your monthly expense worksheet.

Once you have arrived at an estimate of your monthly expenses you need to decide on the number of months you want to be able to cover when you open your business. A rule of thumb is to have enough cash to cover at least three months operating expenses. In some cases, you may want to cover operating expenses up to six months to a year or longer. This depends in part on the expected sales volume for the first several months of your new business and how much of your sales will be for "credit" or for immediate cash payment. A cash flow projection will help you estimate your initial cash needs.

Start-Up Costs

In addition to the month-to-month operating expenses, you need to consider costs which only occur once, in order to estimate how much cash you will need to start your business. (See the "Start-Up Costs" worksheet). You will need to obtain estimates for fixtures and equipment from local representatives of equipment manufacturers, trade associations and other businesses.

1. Wholesale or Retail business. In estimating inventory for a wholesaling or retailing business, suggestions may be obtained from suppliers. These estimates should be checked against the "typical" ratio of inventory to sales if you can obtain such a ratio for your kind of business. For example, assume that net sales in your type of business is typically six times inventory. Then, for annual net sales (sales volume) of $60,000 your inventory should be about $10,000. You should make some calculation of this type to determine the maximum amount you will spend on inventory and not go above it. Otherwise, you or your suppliers may be over-enthusiastic about the amount of merchandise you should buy for your initial inventory.

2. Small Factory. For estimating the money needed to start a small factory, the procedure is similar to that described above although somewhat more complex. For example, suppose you decide to start a small plant making an automobile part and you desire to make an annual net profit of $20,000. Using the industry ratio of 4% net profit to sales volume you will need to have yearly sales of $500,000 (.04 x $500,000). How many units must be produced to attain this volume? Assume you plan to manufacture one part which will sell for an average of $20.00. To reach a sales volume of $500,000, you must sell 25,000 units ($500,000 ÷ $20.00 = 25,000). This means an average of 500 units per week for 50 weeks (50 weeks per year ÷ 25,000 units = 500 units per week).

In order to produce 500 units per week you need to be able to answer the following questions. The answers can be obtained from equipment suppliers:

- How much machinery and equipment will be required to produce 500 units per week?
- How much down payment for the equipment will be necessary?
- How many operators will be needed?

In addition to the equipment costs you must add estimates for materials, wages, rent, sales, office and other expenses for the period of time it will take to produce enough units for one complete turn--that is, the annual production (25,000 units) divided by the expected number of stock turns per year.

3. Service Business. Estimating money needed to start a service business

involves using a combination of the method described for retailing, wholesaling, and manufacturing business. If it is a service business that carries merchandise to resell, estimates can be made in the same way as described for wholesaling or retailing concerns. If it is a service that sells labor or machine work, money needed for equipment and wages could be estimated in much the same way as for a factory. Otherwise, you must arrive at an estimate of your cash needs to start your business based on your assessment of the value of your service taking into consideration your time, energy, creativity, and other standard operating expenses and turn around time to produce and sell your "product."

Conclusion

The total amount of money you have to start your business should exceed the cash you estimate you will need to start with (as computed on your worksheets). This is because you not only need money to get started but you also need to have enough money in reserve to carry the business until it becomes self-supporting. In some instances this time may be from four to six months; in others it may be much longer.

Owning and Operating a Small Business

Two important financial statements used by most businesses are the balance sheet and the income statement. The balance sheet shows the financial position of the business at a given date with regard to assets (what it owns), liabilities (what it owes), and equity (the owner's investment). The income statement measures revenue and expenditures for a business over a certain period of time.

The Balance Sheet

The balance sheet shows the financial position of the business at a particular time. It can be regarded as a financial photograph of the business. The balance sheet has two main sections. The first section illustrates what the business owns (assets). The second section illustrates what the business owes (liabilities), and the owner's investment in the business (equity).

1. Assets. Anything the business owns that has money value is an asset. Assets are classified as either current or fixed.

    - Current assets include cash and those assets that will be converted into cash within one year. Examples of current assets include accounts receivable and inventory. Since all accounts receivable will probably not be collected, an allowance for bad debts should be shown on the balance sheet. An allowance for inventory loss, due to pilferage, breakage, markdowns, etc., should also be shown on the balance sheet.

    - Fixed assets are those things that the business has acquired for long-term use. They include such things as land, buildings, and equipment. With the exception of land, fixed assets decline in value. A periodic charge for depreciation should be shown on the balance sheet.

2. Liabilities. Anything the business owes is a liability. Liabilities are claims against the assets of the business. Liabilities are classified as either current or long-term.

    - Current liabilities are those debts which must be paid within one year. Examples of current liabilities are accounts payable and short-term loans.

    - Long-term liabilities include debts which will not be paid within the year such as a long-term loan which is to be paid over a ten year period of time.

3. Equity. The assets of the business minus the liabilities of the business equal the owner's equity. The equity is the owner's investment in the business.

THE LAWN AND GARDEN SHOP
BALANCE SHEET
DECEMBER 31, 19___

ASSETS

CURRENT ASSETS			
Cash		$1,000	
Accounts receivable	$4,000		
Less allowance for doubtful accounts	400	3,600	
Inventory		3,000	
TOTAL CURRENT ASSETS			$7,600
FIXED ASSETS			
Land		$5,000	
Building	$30,000		
Less allowance for depreciation	5,000	25,000	
Equipment	$6,000		
Less allowance for depreciation	1,000	5,000	
TOTAL FIXED ASSETS			$35,000
TOTAL ASSETS			$42,600

LIABILITIES AND EQUITY

CURRENT LIABILITIES		
Accounts payable	$3,000	
Notes Payable	500	
TOTAL CURRENT LIABILITIES		$3,500
Long Term Liabilities		
Mortgage	$16,100	
TOTAL LONG TERM LIABILITIES		$16,100
TOTAL LIABILITIES		$19,600
EQUITY		
Owner's equity		23,000
TOTAL LIABILITIES AND EQUITY		$42,6000

The Profit and Loss Statement

The profit and loss statement is a summary of all activity involving income and expenses incurred by the business during a particular period of time. It illustrates the profit, or loss, during a particular financial period. The profit and loss statement has five main sections: 1) total sales, 2) cost of goods sold; 3) gross profit; 4) expenses; and 5) net profit.

1. Total revenue is determined by adding cash sales and credit sales.

2. Cost of goods sold is the price paid by the business for merchandise sold during the period. The cost of goods sold can be computed by adding the value of the goods purchased during the period to the beginning inventory (the beginning inventory figure can be obtained from the previous income statement), and then subtracting the value of the inventory on hand at the end of the period.

3. Gross profit is the difference between total revenue and cost of goods sold.

4. Expenses are all those costs incurred in the day-to-day running of the business; for example, utilities, advertising, wages, etc.

5. Net profit is computed by subtracting expenses from the gross profit.

A sample profit and loss statement is presented on the following page. In the left hand column under the heading "Industry Ratios," space has been provided to fill in the average operating ratios (expressed as a percentage of total sales or revenue) for the industry. These operating ratios may be obtained from a number of sources (listed below). They provide a good basis for comparing your business' profits and losses to the industry averages.

1. Key Business Ratios and Cost of Doing Business. Published annually by Dun & Bradstreet, Inc., 99 Church Street, New York, N.Y. 10007, Attention: Public Relations Department. Free. Covers 125 lines of retailing, wholesaling, manufacturing, and construction industries.

2. Mail-Me-Monday Barometer of Small Business. Published semiannually by the Accounting Corporation of America, 1929 First Avenue, San Diego, California.

3. Statement Studies. Published annually by Robert Morris Associates, National Association of Bank Loan Officers and Credit Men, Philadelphia National Bank Building, Philadelphia, Pennsylvania.

4. The various trade associations often publish ratio data which are of particular use to different types of businesses.

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THE LAWN AND GARDEN SHOP
PROFIT AND LOSS STATEMENT
FOR PERIOD ENDING DECEMBER 31, 19__

Industry Ratios				
	TOTAL SALES			
	Cash sales		$15,000	
	Credit sales		20,000	
100%	TOTAL REVENUE			$35,000
	COST OF GOODS SOLD			
	Beginning inventory	$4,000		
	Purchases	25,000		
	Cost of goods available for sale		$29,000	
	Less ending inventory		3,000	
	COST OF GOODS SOLD			26,000
	GROSS MARGIN			$9,000
	EXPENSES			
	Salaries and wages		$3,500	
	Utilities		700	
	Advertising		600	
	Depreciation		200	
	TOTAL EXPENSES			5,000
	NET PROFIT BEFORE TAXES			$4,000
	ESTIMATED INCOME TAX			1,100
	NET PROFIT			$2,900

Cash Flow Forecasts

A cash flow forecast (or projection) is a moving picture of what you expect your proposed business to do for a given period of time. It will tell you what problems you face in getting cash to keep your business going; it will be an important part of a loan package; and it will serve as a basis for comparing your actual business experience with your forecasts.

In order to prepare a cash flow forecast, you must have completed your estimated monthly expenses worksheet and your profit and loss statement. If you have not prepared these worksheets you are not ready to do a cash flow forecast. Your cash flow forecast will only be as accurate as the estimates on which it is based. To a large degree, the success of your business in the first year depends on the accuracy of your cash flow forecast. It is advisable to get some assistance in preparing your cash flow projections unless you have had prior bookkeeping or business finance experience.

Cash forecasts are usually compiled for a 3-month period. Once you are in business, the figures are revised each month as they are compared with actual results. The cash forecast should always be three months ahead of current operations. Figures used in the cash forecast relate to expected cash receipts and payments.

A sample cash flow forecast is provided on the following page. It shows for each month the amount of cash you have to start with, the amount you received, the amount of cash you spent, and the amount of cash you have at the end of the month. The first two months' figures are explained below.

1. The projected accounts receivable figure for January of $2,000 was determined in part by the firm's credit policy and by what past experience has shown will be paid by customers. The figure of $2,000 was arrived at as follows:

    a. The firm's credit policy to customers is that all credit purchases are to be paid within one month.

    b. December credit sales totaled $2,400. Experience indicates that only $2,000 of this amount will be received in January.

    c. The January sales forecast estimates $4,000 in total sales. It is estimated that $1,300 of that total will be cash sales, and $2,700 will be credit sales. Since one month's credit is given to credit customers, no payments will be expected from January credit sales until February. Experience shows that approximately $2,200 of the $2,700 in credit sales for January will be collected in February.

2. Similar calculations were made to arrive at a figure for disbursements on accounts payable.

3. The cash balance for January was too large for the immediate needs of the firm. Therefore, $3,000 was invested in short-term securities (ninety days).

CASH FORECAST SHEET

		January		February		March	
		Forecast	Actual	Forecast	Actual	Forecast	Actual
EXPECTED CASH RECEIPTS:							
1.	Cash sales	$1,300		$1,400			
2.	Collections on accounts receivable	2,000		2,200			
3.	Other Income	-----		-----			
A.	Total Cash Receipts	$3,300		$3,600			
EXPECTED CASH PAYMENTS:							
4.	Disbursements on accounts payable	$1,000		$1,550			
5.	Utilities	100		100			
6.	Payroll	1,000		1,000			
7.	Advertising	1,300		1,000			
8.	Other (taxes, etc.)	50		150			
B.	Total Cash Payments	$3,450		$3,800			
9.	Expected cash balance at beginning of month	$7,000		$3,850			
10.	Cash increase or decrease (A -B)	-150		-200			
11.	Expected cash balance at end of month	6,850		3,650			
12.	Desired cash balance	$3,850		$3,850			
13.	Short-term loan needed (12-11, if 12 is greater)			$200			
14.	Cash available for short-term	$3,000					

KEY RATIOS & FINANCIAL ANALYSIS

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This fact sheet is intended to introduce you to the area of financial analysis. You are not expected to be able to use the information in this fact sheet for this course, but once you are in business it should become a good reference source. It will also help you communicate with bankers, accountants, and other business persons.

Ratios help indicate possible answers to important questions related to the efficiency of a business. Ratios give feedback on current operations and provide a basis for planning for the future. Comparisons of ratios for the current year should be made with ratios of previous years for a business, and with the ratios of other firms in the same line of business.

1.	$\frac{\text{net profit}}{\text{equity}}$	This ratio is known as return on investment. The ratio shows the return obtained on the owner's investment in the business. Is the return larger than the return the owner could get by investing his or her money elsewhere?
2.	$\frac{\text{net profit}}{\text{sales}}$	This ratio shows the net profit margin on sales. A low net profit margin can be caused by: 1) a poor pricing policy, or 2) high operating costs.
3.	$\frac{\text{sales}}{\text{equity}}$	This figure is referred to as the investment turnover. The value of annual sales should be a certain number of times greater than the amount of investment in assets.
4.	$\frac{\text{total revenue}}{\text{average inventory}}$	The inventory turnover figure shows how fast the merchandise is being sold. It answers the question of whether the business has too much or too little money tied up in the inventory.
5.	$\frac{\text{accounts receivable}}{\text{average sales per day}}$	The average collection period answers the question of how quickly the credit sales are being collected. It tells the owner how many days' sales are tied up in accounts receivable.
6.	$\frac{\text{current assets}}{\text{current liabilities}}$	The current ratio answers the question of whether or not the business has enough current assets to meet its current debts.

Analyzing Financial Statements

Ratio analysis is a means of analyzing the figures that appear on financial statements. The use of these ratios enables the owner to compare the performance of her business with that of another firm, or with the performance of the industry as a whole. She can also compare the current year's performance with the performance of previous years. Such comparisons highlight the strengths and weaknesses of the business operation. A ratio is computed by taking selected figures from the financial statements and expressing one figure as a percentage of another figure. The following ratios offer valuable information to the business owner. Each of the following ratios will analyze figures taken from the profit and loss statement and balance sheet for the Lawn and Garden Shop that appear on pages 131 and 133 in the previous fact sheet. Each ratio is compared to the average figure for the plant store industry, which is illustrated in parentheses.

1. Return on investment. This ratio shows the return obtained on the owner's investment in the business. It is computed by dividing the net profit by owner's equity, and expressing the result as a percentage.

$$\frac{\text{net profit}}{\text{equity}} = \frac{\$2{,}900}{\$23{,}000} = 12.6\%\ (14.9\%)$$

From a purely economic point of view, this figure should be relatively larger than the return the owner could get by investing her money elsewhere. The business owner should receive a better return on her investment for the time, effort, and risks involved in owning and operating a business.

2. Net profit to sales. This ratio shows the net profit margin on sales. It is computed by dividing net profit by sales.

$$\frac{\text{net profit}}{\text{sales}} = \frac{\$2{,}900}{\$35{,}000} = 8.3\%\ (5.0\%)$$

A low net profit on sales can be caused by two factors: 1) poor pricing policy, or 2) high operating costs. In order to determine which of these factors is causing the low net profit, further ratio data are available to the business owner. A poor pricing policy is reflected in the gross profit margin. Gross profit margin is computed by dividing gross profit by sales. The gross profit margin should be similar to, or greater than, the gross profit margin applicable to the particular industry. Operating costs can be examined by expressing individual items of expense such as advertising costs or payroll expenses as a percentage of sales. The ratios obtained should be compared with those of other firms in the same industry.

3. Sales to equity (net worth). This figure is referred to as the investment turnover and is not expressed as a percentage. A firm's net profit on sales may be high, but if the rate of asset turnover is low, the rate of return on investment may be low. The value of annual sales should be a certain number of times greater than the amount of investment in assets. This figure is computed by dividing sales by equity (net worth).

$$\frac{\text{sales}}{\text{equity}} = \frac{\$35{,}000}{\$23{,}000} = 1.5\%\ (3.4\%)$$

4. Inventory turnover. The inventory turnover figure shows how fast the merchandise is being sold. It is computed from the income statement, and answers the question of whether the business has too much or too little money tied up in the inventory. It is computed by dividing total revenue by average inventory.

$$\frac{\text{total revenue}}{\text{average inventory}} = \frac{\$35{,}000}{1/2(4{,}000+3{,}000)} = \frac{\$35{,}000}{3{,}500} = 10 \text{ times } (9.7 \text{ times})$$

Usually, the higher the turnover rate the better. This would suggest that the merchandise in the inventory is current and salable. However, this figure is highly dependent on the type of business.

5. Average collection period. The average collection period is computed from the balance sheet and the income statement. It answers the question of how quickly the credit sales are being collected. It will tell the owner how many days' sales are tied up in accounts receivable. It is computed by first dividing sales by 365 (the number of days in the year) to determine the average sales per day. The accounts receivable is then divided by the average sales per day.

$$\frac{\text{sales}}{365} = \text{average sales per day} = \frac{\$35{,}000}{365} = \$94.10$$

$$\frac{\text{accounts receivable}}{\text{average sales per day}} = \frac{\$4{,}000}{95.88} = 38 \text{ days}$$

The average collection period should not exceed 1-1/2 times the credit terms extended by the business (thirty, sixty, ninety days, etc.).

6. Current ratio. The current ratio is computed from the balance sheet and answers the question of whether the business has enough current assets to meet its current debts. The current ratio is computed by dividing current assets by current liabilities. A current ratio of 2 to 1 is generally considered good.

$$\frac{\text{current assets}}{\text{current liabilities}} = \frac{\$7,600}{3,500} = 2.2\ (2.2)$$

Another ratio called the acid-test ratio answers the question of whether the business could meet its current obligations with funds readily available if all sales revenue should stop. It is computed by dividing cash plus accounts receivable by current liabilities. An acid-test ratio of 1 to 1 is considered satisfactory.

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The Lawn and Garden Shop

Wilma Meyers has just received her end of the year balance sheet and income statement (presented in the preceding fact sheet) from her accountant. Although she has never used ratio analysis before, she has decided that this year she will compare her business' performance with the lawn and garden industry averages.

She has obtained the following ratio data from her trade association which show the industry average for each of the following ratios and has compared them with her own business' performance to determine the strengths and weaknesses of her own shop.

Ratios		Industry Averages	Ratios for the Lawn and Garden Shop		
$\frac{\text{net profit}}{\text{equity}}$	=	14.9	$\frac{2{,}900}{23{,}000}$	=	12.6
$\frac{\text{net profit}}{\text{sales}}$	=	5.0	$\frac{2{,}900}{35{,}000}$	=	8.3
$\frac{\text{sales}}{\text{equity}}$	=	3.4	$\frac{35{,}000}{23{,}000}$	=	1.5
$\frac{\text{total revenue}}{\text{average income}}$	=	9.7 times		=	10 times
average collection period	=	45 days		=	38 days
$\frac{\text{current assets}}{\text{current liabilities}}$	=	2.2	$\frac{\$7{,}600}{3{,}500}$	=	2.2

The following strengths and weaknesses of the Lawn and Garden Shop resulted from her ratio analysis.

1. The net profit to equity ratio shows that the return on investment for the Lawn and Garden Shop is lower than the industry average. This low return on investment can be caused by either 1) a low gross margin or high operating costs, or 2) a low volume of sales relative to the value of the investment in the business.

2. The net profit to sales ratio shows that the margin of profit is very satisfactory relative to the industry as a whole. It can be assumed that the Lawn and Garden Shop has a sound pricing policy and that operating expenses have been kept in line.

3. The sales to equity ratio shows that the volume of sales relative to the amount invested in the business is low compared to the industry average. This low figure is the reason for the somewhat low return on investment obtained by the Lawn and Garden Shop (all other ratios are satisfactory). In order to increase this sales to equity ratio more sales have to be generated or investment in assets reduced.

Below is a brief profile about a hypothetical woman who owns a small used furniture store. It contains enough information to prepare two basic financial statements--the balance sheet and the profit and loss statement. Read the profile carefully and then complete the two financial statement worksheets that follow. Refer to the fact sheet, "Understanding Financial Statements," for assistance in completing the worksheets. Two additional worksheets--initial start-up costs and estimated monthly expenses--are also included in this profile. They have already been completed for you.

Mary's Used Furniture Store

Mary Jones decided she wanted to open a used furniture store several years ago. For many years she had collected and refurbished old furniture for her own home. Her friends and family admired her work and her reputation slowly spread by word of mouth. She began to collect and refurbish furniture for her friends and acquaintances and gradually built up a small but thriving home-based business. She knew the business well. An uncle had owned an antique store and she had worked in it while she was in high school and college. She loved to go to auctions, garage sales, and flea markets and had developed good contacts with some of the major furniture dealers in the city.

After doing some research on her potential customers and location and talking with her family and friends, some small business owners in the furniture business, and her banker, she decided to go ahead and start a used furniture business on a full time basis. Using money from her personal savings and a divorce settlement, she bought a building in a good location for her type of business. The building was valued at $40,000 and the land was valued at $7,000. The mortgage on the building was $30,000. While she was still working, she took out a personal bank loan to help cover some of her initial start-up expenses. With part of the loan money, she purchased a truck for $6,000 and spent another $3,000 for fixtures and remodeling of her building. She was able to obtain the loan because she had a good credit history plus personal savings and equity in her own home and in the building she had purchased.

With the assistance of an accountant, Mary has kept good records of her business' activity during her first year of operation. Before her accountant prepares the end-of-year financial statements, Mary decides she would like to have a good picture of her first year in business. In order to get this picture she plans to prepare a simplified balance sheet and profit and loss statement on her own.

Mary has the following information about her business at her fingertips:

At the beginning of the year, Mary paid $18,000 to stock her store with furniture. During the year she spent another $50,000 on used furniture to replenish her inventory. Mary sold $80,000 worth of furniture.

Of that amount, $48,000 was sold on credit and the other $32,000 was in cash sales. At the end of the year, she still had $7,000 of the credit sales to be collected. She estimated she would not be able to collect about $1,000 of the amount owed her on credit. She had $13,000 cash in the bank at the end of the year. She estimated she had $9,000 worth of furniture still in her store at the end of the year.

Mary's monthly expenses during the year included the following: $900 for her salary (out of which she pays her living expenses and payments on her personal loan); utilities, $100; advertising, $100; insurance, $50; supplies, $25; and mortgage payments, $200. She also pays her accountant $100 per quarter.

Mary owes $9,000 in bills at the end of the year to suppliers and $2,000 on her personal loan. She estimates the depreciation allowance for the building will be $4,000; and for the equipment she has as part of her business, about $1,000.

Mary's Used Furniture Store
Balance Sheet
December 31, 19___

ASSETS

Current Assets		
Cash		______
Accounts receivable	______	
Less allowance for doubtful accounts	- ______	= ______
Inventory		______
TOTAL CURRENT ASSETS		______
Fixed Assets		
Land		______
Building	______	
Less allowance for depreciation	- ______	= ______
Equipment (including vehicles & remodeling and fixtures)	______	
Less allowance for depreciation	- ______	= ______
TOTAL FIXED ASSETS		______
TOTAL ASSETS		______

LIABILITIES AND EQUITY

Current Liabilities		
Accounts Payable	______	
Loan Payment	______	
TOTAL CURRENT LIABILITIES		______
Long Term Liabilities		
Mortgage	______	
TOTAL LONG TERM LIABILITIES		______
TOTAL LIABILITIES		______
Equity (assets minus liabilities)		
Owner's equity		______
TOTAL LIABILITIES AND EQUITY = ASSETS		______

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Mary's Used Furniture Store
Profit and Loss Statement

For 12 Month Period

Industry Average *					% OF TOTAL SALES
	TOTAL SALES				
	Cash sales		______		
	Credit sales		______		
100%	TOTAL REVENUE			______	100%
	COST OF GOODS SOLD				
	Beginning inventory	______			
	Purchases	______			
	Cost of goods available for sale		______		
	Less ending inventory		______		
67%	COST OF GOODS SOLD			______	74%
33%	GROSS MARGIN (total revenue minus goods sold)			______	26%
	EXPENSES				
	Salaries and wages		______		
	Utilities		______		
	Advertising		______		
	Insurance		______		
	Depreciation (equipment and building)		______		
	Mortgage Payments		______		
	Other (accountant, supplies, etc.)		______		
	TOTAL EXPENSES			______	
	NET PROFIT (LOSS) BEFORE TAXES			______	
	ESTIMATED INCOME TAX			0	
8%	NET PROFIT (LOSS)			______	

---

*The percentages listed above in the left hand column are taken from Dun & Bradstreet, Inc., "Cost of Doing Business" (1972).

Mary's Used Furniture Store
Initial Start Up Costs Worksheet

Start up costs are expenses you have to pay only once. Mary estimated her initial start-up costs by consulting the sources listed in the right hand column.

Expense Items	Amount	Source of Information
Fixtures and equipment (and installation costs)	$ 8,000	(Make a list of what you need and price it)
Decorating and remodeling	1,000	Consult contractors
Starting inventory	18,000	For total amount use typical industry ratio to sales
Deposits	200	Utility Companies
Legal and other professional fees	100	Lawyers, Accountants, etc.
Licenses and permits	200	City Offices
Insurance	250	Insurance Agents
Advertising and promotion for opening	500	Your Estimate
Other	200	
TOTAL (of above items)	$ 28,450	
TOTAL (from the Monthly Expense Worksheet)	$ 16,545	
TOTAL ESTIMATED CASH YOU NEED TO START WITH	$ 44,995	

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Mary's Used Furniture Store
Estimated Monthly Expense Worksheet

Industry Ratios (Annual)	Expense Item	Monthly Estimate based on sales of $80,000 per year		Reserve recommended prior to starting (in months)		Total Start Up Estimate
	Salary of Owner-Manager (refer to cost of living budget)	$ 900	x	3	=	$ 2,700
	All other salaries and wages	0				0
	Inventory	4,000	x	3	=	12,000
	Rent	200	x	3	=	600
	Advertising	100	x	3	=	300
	Delivery Expense	0				0
	Supplies	25	x	3	=	75
	Utilities	100	x	3	=	300
	Insurance	0				150
	Taxes	100	x	3	=	300
	Interest	0				0
	Maintenance	0				0
	Legal and other professional fees	40	x	3	=	120
	Miscellaneous	0				0
	TOTAL	$ 5,515		TOTAL		$ 16,545

FINANCIAL STATEMENT WORKSHEETS

On the following pages are financial statement worksheets:

- Start Up Costs Worksheet
- Estimated Monthly Expenses Worksheet
- Estimated Profit and Loss Statement for Manufacturers
- Estimated Profit and Loss Statement for Service or Retailers
- Projected Balance Sheet
- Projected Cash Flow Worksheet

These worksheets are to be completed on your own as you obtain the necessary information to develop a financial plan for your own business. These financial worksheets should not be used as final financial projections for a business plan or loan package. Check with your banker or other lending agency and an accountant before preparing formal financial statements.

START UP COSTS WORKSHEET

Start up costs are expenses you have to pay only once. Estimate the amounts to the best of your knowledge at this point and do it again when you have collected more accurate information.

Expense Items	Amount	Source of Information
Fixtures and equipment (and installation costs)		(make a list of what you need and price it)
Decorating and remodeling		Contractors
Starting inventory		For total amount use typical ratio to sales
Deposits (list on separate sheet)		Utility Companies
Legal and other professional fees		Lawyers, Accountants, etc.
Licenses and permits		City Offices
Insurance		Insurance Agents
Advertising and promotion for opening		Your Estimate
Other (list on a separate sheet)		
TOTAL (of above items)	$__________	
TOTAL (from the Monthly Expense Worksheet)	$__________	
TOTAL ESTIMATED CASH YOU NEED TO START WITH	$__________	

Fp5b

ESTIMATED MONTHLY EXPENSES WORKSHEET

Industry Ratios (Annual)	Expense Item	Monthly Estimate based on sales of $ ________ per year	Reserve Needed Prior to Starting (in months)	Total Start Up Estimate
	Salary of Owner-Manager (refer to cost of living budget)			
	All other salaries and wages			
	Inventory			
	Rent			
	Advertising			
	Delivery Expense			
	Supplies			
	Utilities			
	Insurance			
	Taxes			
	Interest			
	Maintenance			
	Legal and other professional fees			
	Miscellaneous			
	TOTAL		TOTAL	

Fp5c

ESTIMATED PROFIT AND LOSS STATEMENT FOR SERVICE OR RETAILERS

	Industry Ratio	% of Your Sales $(Annual)	Your Dollars 1	Your Dollars 2	Your Dollars 3
1. Total Sales	100%				
2. Cost of goods sold					
3. Gross profit					
4. Variable expense					
Operating supplies					
Gross wages					
Repairs and maintenance					
Advertising					
Car and delivery					
Bad debts					
Administrative and legal					
Outside labor					
Miscellaneous expense					
Total variable expense					
4b. Fixed expense					
Rent					
Utilities					
Insurance					
Taxes and licenses					
Interest					
Depreciation					
Total Fixed expenses					
Total expenses					
Net Profit					

Fp5d

ESTIMATED PROFIT AND LOSS STATEMENT FOR SMALL MANUFACTURERS

	100%	TOTAL	JAN	FEB
A. Net Sales				
B. Cost of Goods Sold				
1. Raw Materials				
2. Direct Labor				
3. Manufacturing Overhead				
Indirect Labor				
Factory Heat, Light, and Power				
Insurance and Taxes				
Depreciation				
C. Gross Profit (Subtract B from A)				
D. Selling and Administrative Expenses				
4. Salaries and Commissions				
5. Advertising Expenses				
6. Miscellaneous Expenses				
E. Interest Expense				
F. Net Profit (Subtract D from C)				
G. Net Profit				

PROJECTED BALANCE SHEET

CURRENT ASSETS

Cash ________

Accounts Receivable ________

Inventory ________

FIXED ASSETS

Real Estate (land and buildings) ________

Fixtures and Equipment ________

Vehicles ________

OTHER ASSETS

License ________

TOTAL ASSETS

____

CURRENT LIABILITIES

Notes Payable (due within 1 year)

Accounts Payable

Accrued Expenses

Taxes Owed

LONG-TERM LIABILITIES

Notes Payable (due after 1 year)

Other

TOTAL LIABILITIES

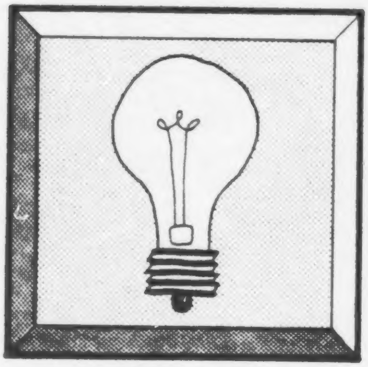
NET WORTH (or equity)
(Assets minus Liabilities)

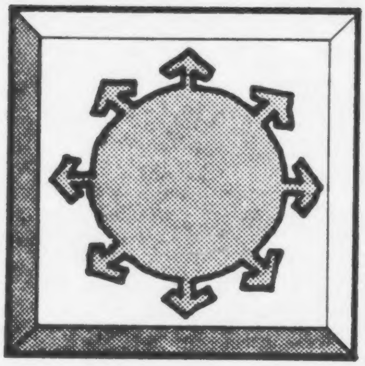
TOTAL LIABILITIES plus NET WORTH
(should equal Assets)

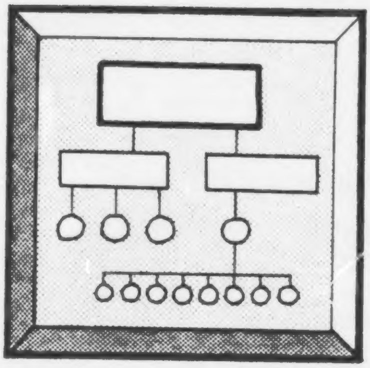
PROJECTED CASH FLOW WORKSHEET

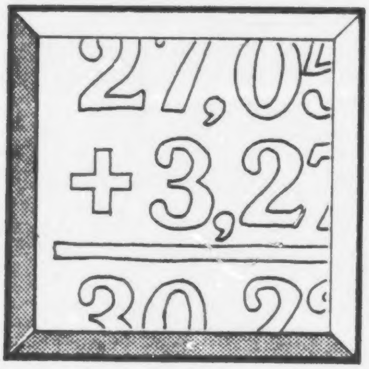
	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
CASH (beginning of month)												
Cash on Hand and in bank												
PLUS CASH RECEIPTS												
Cash Sales												
Credit Sales Payments												
Loan Proceeds												
Other Cash Income												
TOTAL INCOME												
TOTAL CASH												
EXPENSES (during month)												
Inventory (2 month start-up inventory at 100% markup												
Wages (including owner's)												
Taxes												
Equipment Expense												
Overhead												
Selling Expense												
Transportation												
Loan Repayment												
Other Cash Expenses												
TOTAL EXPENSES												
ENDING CASH (total cash above less expenses)												

Fp5f





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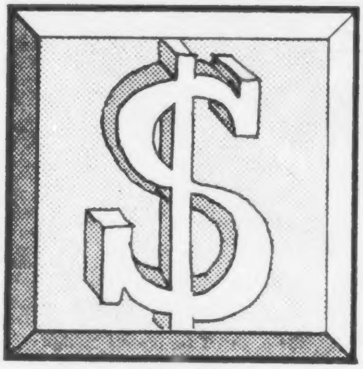


Finance 2

Financing

Until recently, it has been difficult for women (particularly married women) to establish credit on their own, including borrowing money to start or run a business. Due to the recent passage of new credit laws, however, it is now illegal to discriminate on the basis of sex or marital status during application for credit. It is important for a woman to know her credit rights before talking to a bank or other lending source about a business or personal loan.

Due to economic conditions in the U.S. during the first half of the 1970's, it was increasingly difficult for men and women to obtain initial start-up financing to open a new business. Most lending agencies were not interested in long-term business loans to the new business owner who did not have a proven success record, a strong credit record, and an equity source. Once the business had survived and was profitable after a 3-5 year period, the banks began to take an interest in short-term (and possibly long-term) business loans. Economic conditions are in a constant state of change, and there are some indications that the present climate may be more favorable for the small business owner looking for financing. Whether a prospective business owner needs to borrow money to start her business or not, it is almost certain that if her business is going to be a success, at some point over the life of the business she will most certainly need a loan or some source of financing.

It is important as a prospective woman business owner to be aware of the various sources and types of financing to start a business and to learn how to communicate effectively about her business with financing representatives.

This LAP will introduce you to the area of financing a small business and provide some tips on how to communicate with loan officers.

When you have completed the Financing LAP you will be able to:

1. List several sources of financing to start a small business.
2. List some of the important points a loan officer or other financing source considers when evaluating a loan application.
3. Become familiar with and use key financing terms in communicating with a financing source.
4. List the elements of a loan package.
5. Be aware of the new credit laws and be able to list how they have changed credit procedures for women.

Before your next class. Review the materials included in the LAP. Read the three fact sheets, "Sources and Types of Financing," "Guide to Obtaining Financing," and "Credit Rights."

ACTIVITIES

The activities listed below are designed to guide your learning about financing a small business. If you follow them you should be able to meet the five goals of the Financing LAP.

1. Attend a class presentation on financing and participate in the question and answer period.

On your own...

2. Read the three factsheets: "Sources and Types of Financing", "Guide to Obtaining Financing", and "Credit Rights".
3. Write a brief (two page) outline of your business idea based on the work you have done in the previous LAPs. It should include: 1) a statement about your background and why you feel qualified to start your particular business; 2) a brief description of your proposed business, 3) the amount of money you have to invest in the business and the amount you need to borrow, if any (your start up costs worksheet, estimated monthly expense worksheet, personal financial statement, and cost of living budget should be attached to your description) and 4) how you will use the amount you need to borrow. Be prepared to present this in class as part of a small group exercise.
4. Interview a loan officer or representative of a financing source using the "Guide to Obtaining Financing" factsheet and the "Loan Interview" worksheet. Complete the worksheet after the interview.

5. In class, select a partner and make a 5-10 minute presentation of your business idea using the 2-page outline as basis for the presentation. Your partner will play the part of a loan officer and will evaluate your presentation and business idea. Then switch roles with your partner and repeat the exercise.

The materials that should be included in your LAP are:

Factsheets:
- Sources and Types of Financing
- Guide to Obtaining Financing
- Credit Rights

Worksheets: A Business Outline
- Loan Interview

Optional Reading

Alexander, D.H. Banking for the Non-Bankers, D.H.A. Associates, 1974. An excellent and complete introduction to banking vocabulary, types of loans, preparing financial statements, and criteria for evaluating a loan application. Available by writing to D.H.A. Associates, P.O. Box 1861, Seattle, Washington 98111 or at the Security Pacific Library, Main Office in Los Angeles.

Bank of America. Financing small business. Small Business Reporter, 13 (8), 1976. An excellent guide to use in understanding the various sources and types of financing and how to put together a loan package (pages 7-32).

Borrowing Basics for Women, Citibank, New York, N.Y., 1976. A basic pamphlet that introduces a potential woman business owner to the topic of financing. Available free of charge by writing to Citibank, Public Affairs Department, P.O. Box 939, Church Street Station, New York, N.Y. 10008.

Fiske, H. and Zehring, K. How to start your own business. Ms. Magazine, IV (10), April, 1976. An excellent 16-page article that includes an up-to-date section on realistic tips for the woman who needs financing to start her business.

Metcalf, W.O. Starting and managing a small business of your own. SBA: The Starting and Managing Series 1, 1973. A comprehensive guide that covers all aspects of starting a business including a brief section on financing (pages 20-23).

Zwick, J. A handbook of small business finance. SBA: Management Series, 15, 1975. A comprehensive guide to understanding financial planning and obtaining financing for a new business venture.

SOURCES AND TYPES OF FINANCING

For those of you who have determined that you do not have enough capital to start and run your business, you must find a source(s) of financing if you are to become a small business owner. For those of you who have sufficient funds to start it is still important to become aware of various sources of financing in preparation for the time you will want to expand your business or for the time you run into problems and need additional working or fixed capital.

The capital of a business consists of the money used for initial start-up costs and the money used to run the business. Capital may be the owner's own money (equity) or money which has been borrowed or purchased on credit. There are two kinds of capital: fixed capital, which includes land, buildings, equipment and fixtures; and working capital, which is the money used to run the business. This money is used to pay operating expenses and buy inventory. Money that is owed to the business owner is also considered working capital. Anything that can be easily and quickly converted into cash is considered working capital.

There are also two basic types of financing available to the new small business owner--debt (or credit) financing or equity financing. Equity financing does not involve repaying the money that is invested in the business. Usually the investor in a business expects to receive a specified percentage of the profits of the business. The investor may also expect to play a part in the operation and/or decision making of the business. It is important to clearly understand and obtain in writing the terms of the investment and the relationship of the investor to the business. In most cases a lawyer should be contacted. Debt (or credit) financing is capital that is borrowed and is normally repaid with interest to the lending source. The lender usually does not have any say in the operation or management of the business.

Sources of Capital

There are several sources of financing--banks, finance companies, commercial loan companies, savings and loan firms, life insurance companies, government agencies, and trade credit (suppliers of merchandise and equipment). Each of these sources offers several different types of financing. Banks are the most common source of debt financing. Other lending sources usually offer more specialized loans either in terms of risk or higher or lower interest rates and repayment terms.

1. Personal Savings

One important source of money is your own savings. Personal savings include more than the money you have in the bank. They include everything you own of any value. Therefore, you may decide to take out a mortgage on your home or other property as security for the loan you wish to obtain. Other sources of capital include life insurance policies.

2. Friends and Relatives

This is a traditional and oftentimes most likely source of capital for the new business owner. Don't overlook it. However, be aware of the pitfalls of such arrangements by clearly stating the agreements of the loan or investment in the business, repayment terms, and the role the friend or relative will play in the business. It's better to have the agreement put in writing at the outset rather than waiting until a misunderstanding occurs.

3. Suppliers

Many times a supplier of merchandise or services will let the new small business owner purchase a part or all of his inventory (or service) on credit and pay for it over a specified period of time. It's important not to overlook suppliers as a potential source of financing.

4. Banks

Banks offer the greatest number and widest variety of loans. On the other hand they are considered a "conservative" lender in that the primary basis for lending is the business owner's ability to repay the loan evaluated by the business' past record, the owner's management experience and business expertise and her personal credit record. Collateral or owner's equity is not the primary basis for loan approval although it plays an important, but secondary role in obtaining a loan through a bank. Below are listed the various types of bank loans. For long term, start-up financing, banks usually require that 40-60% of the loan be matched by the loan applicant.

a. Short term loans are a principal type of bank lending. They are usually written for 30, 60, or 90 days and up to no more than one year to cover the daily operational needs of the business. These loans are life savers for the business that is short on cash during a particular key period but needs or wants to take advantage of supplier discounts or increase inventory or production. The loan is repaid as the business generates its sales based on the inventory purchased from the loan. The various types of short term loans include the following:

- commercial loan
- revolving line of credit loans
- inventory financing
- unsecured line of credit

Each of these short term loans is made for a specific purpose and time period with different repayment terms and qualifications.

- Commercial loan - is a basic short term loan repaid in one sum at a specified 3 to 6 months. Usually it is made on the basis of the financial statements of the business rather than specific collateral requirements. Obviously the business would have to be doing well to qualify for this type of loan.

- Revolving line of credit loan - the basic form is "accounts receivable" financing whereby the bank lends the business owner a percentage (65-80%) of the amount owed to the business by customers at a given time (accounts receivable). As the customers pay the owner back, the owner is able to repay the bank. A "revolving line of credit" is thus formed between the owner and the bank. As the owner receives payment on accounts receivable, she pays the bank, and the bank advances more cash based on new sales. Usually this form of credit is set up for a year at a time. Another form of "revolving credit" loans is based on a business' inventory.

- Unsecured line of credit - is available to the successful business owner with an established track record. Banks simply extend credit up to specified amounts to be borrowed over the course of a year. The owner is not required to put up any collateral to support the loan.

b. Long term loans are used primarily for financing business start-ups and major capital expenditures such as purchases of equipment, real estate improvements, facilities, or for working capital. Repayment is based on a monthly or quarterly installment basis. Funds must be set aside from sales each month to cover the installment payments. The various kinds of term loans include the following:

- unsecured term loans
- equipment loans
- real estate financing
- equipment leasing

5. Government Loans

Government loans for small businesses are available through the Small Business Administration, Small Business Investment Companies (SBICs) and Minority Enterprise Small Business Investment Companies (MESBICs).

For an SBA loan you may apply directly to the regional office nearest you or by writing to the national office at 1441 L Street, N.W., Washington, D.C. 20416. Some banks will also process SBA indirect (bank guaranteed) loans for you. If you are interested in an SBA bank guaranteed loan, it is a good idea to find a bank that will handle these loans. Brochures are available free of charge that describe SBA loans and procedures for applying.

SBICs and MESBICs provide long term loans, usually for 5-7 years, for major capital expenditures or start-up costs. They charge standard banking interest rates in states where there is no usury law. In California, where there is a usury law, there is a current 10% maximum interest rate.

The State Business and Industrial Development Corporations (SBIDCs) also provide long term loans as well as equity investments. The requirements and terms of the loans differ depending on the state.

6. Other Sources of Financing

Other sources of financing include a wide range of finance companies, commercial loan companies, savings and loan firms, life insurance companies, and suppliers of merchandise and equipment. It's important to be aware of these various sources and consider them as alternatives to the standard lending sources.

Once you have determined that you need to obtain financing for your business, you need to consider applying for a loan or interesting someone in investing in your business.

There is some basic information any lending agency will want to know when you apply for a loan. The following information is reprinted from the Business Development Committee of Rosemead's Chamber of Commerce publication, "What You Should Know and Do When Starting a New Business," Rosemead, California.

What Does the Bank or Other Lending Agency Want to Know When You Apply for a Loan?

1. Like all good selling, obtaining a business loan requires a complete presentation of the product. In this case the product is you, your managerial ability, and your business. Banks, as well as other lenders, usually require applicants for business loans to be able to show:
    - Good personal character and reliability
    - Sound business ability
    - Success in past business ventures or sufficient knowledge of business methods to give promise of future success
    - Adequate investment on the part of the proprietors
    - Reasonable need for a loan; reasonable probability of repayment on time and in full.

2. Bankers expect you to give factual information which may be evaluated and verified preliminary to making a loan. Most banks have application forms upon which the information may be listed. They vary somewhat from bank to bank.

    You will be able to comply with all requests for information if you organize your information and thinking along the lines outlined below. What is the information required by banks? They usually seek the following:

    a. How your business is organized (corporation, partnership, or proprietorship). This makes a difference in the liability feature.

    b. The nature of your business and when it was organized. Have there been any recent changes in your business name or nature of operation?

    c. Personal data concerning the principal owners. For example, the age and marital status of you and your partners or principal stockholders. Where do you have your personal bank accounts? In what business and civic organizations do you have memberships? Do you and your associates carry life insurance? In what amounts, and who are the beneficiaries? Is any life insurance carried by you or your associates for the benefit of the business? Past credit history references?

    d. Business banking connections: Where does your business maintain bank accounts? What is its bank indebtedness? Is there any indebtedness other than with bankers? If the business is organized as a partnership, do the partners have any contingent debts outstanding?

e. How you propose to repay the loan and what is its purpose.

3. In many ways the purpose of the loan is the most important feature of the loan application. The lender wants to be sure the loan will be used for a necessary business purpose. Your ability to establish that will be extremely helpful. To prove your business need for a loan, you should cover such points as the following:

   a. Is it for a business operation of a self-liquidating character? For example, is the loan needed to finance the purchases of merchandise which can be sold before the loan is due?

   b. Do you have orders for merchandise which will require additional working capital to manufacture?

   c. Will the funds be used to purchase equipment having a general purpose or a specialized one?

   d. How did you arrive at the amount of the loan requested? Is it the minimum necessary for the intended purpose?

4. Your bank will want to talk about your prospects. You want to be ready to:

   a. Give a brief account of the future of your business in terms of such questions as the probable demand for its products or services, and the presence, absence, or prospects of competition.

   b. Show what will be your probable future ability to obtain raw materials or supplies of merchandise and what the costs will be.

   c. Show what you think future price levels will mean to the valuation of your present inventories. How is your inventory valued?

   d. Point out any other items which will shed light upon your business.

5. Your bank will, of course, ask you for a balance sheet. In it you will list your business assets and liabilities as of some recent date, and for comparative purposes, the same information for the previous year. In doing this:

   a. Show proper reserves for depreciation.

   b. State how your inventories have been stated. Ordinarily they should be valued at cost or market, whichever is lower.

   c. Give the dollar amount of accounts considered past due or doubtful, or show an adequate reserve for bad debts.

6. Your bank will also ask for a summarized statement of last year's sales, costs of doing business, and net profit before income taxes. At least one previous year must be shown for established businesses. If several years' data are offered, it will be helpful. This should include information on how much you and your partners are drawing from the business, or how much dividends have been paid in recent years.

7. Your bank will also ask you for income tax returns, supporting the information supplied on your balance sheet and profit and loss statement.

8. If yours is a NEW BUSINESS, you will not have much of the foregoing information. What should you collect?

   a. Have some ideas about how you will use the financing to operate your business with success.

   b. Prove that you have built up a reputation for paying your obligations when due.

   c. Show you have had adequate business experience in this or a similar line of effort.

   d. Show you have sufficient financing of your own to warrant a lender taking a reasonable risk in advancing part of your financial needs.

   e. Perhaps show you have on hand unfilled orders or business prospects or a character giving reason to believe that you can produce sufficient income to repay the loan.

Aids in Choosing the Bank Best for You

1. It is important to choose your bank wisely. Here are points to watch.

2. If you can, choose a banker who is willing to assume a risk, providing there is a reasonable assurance of repayment.

3. Choose a progressive banker, one who is alert to current industrial trends, willing to make loans for new products and more efficient processes. She/he knows that, in the world of rapid change, risk is a matter of careful analysis, not merely of traditional soundness.

4. Choose a banker who has confidence in the future of your community and is willing to invest in it.

5. Make sure the bank is the proper size for your business, taking into consideration its lending ability under the statutes.

6. See whether it can buy securities for you or take them for safekeeping if you want this done.

7. Find out if it has night deposit/safe deposit services.

8. Be certain that its officers are accessible for conferences with you when you require them.

9. Find out if its deposits are guaranteed under the Federal statutes.

10. Find out what service charges will be assessed for maintaining your account. Will an earnings allowance be given as an offset against servicing expense?

11. Does the bank assess a charge for checks deposited which are returned? Can they assist you in collection?

12. See if it will willingly furnish you the data you need concerning your customers or trade.

13. Make sure the bank is so located as to:

    a. Facilitate moving your funds for deposit.

    b. Cash checks for the office or employees.

    c. Cash payroll and petty-cash funds at a minimum risk.

    d. Be of assistance to employees in savings accounts and other matters.

Your community banker may be more receptive to you than one in a large city. On the other hand, large banks sometimes charge rates below those of their smaller competitors. Your only answer here is to compare.

Many banks are now setting up special small-business departments. These are helpful, so long as the rates are favorable.

Don't change a seasoned banking relationship without good reason; on the other hand, don't remain dependent upon your present connection if you are sure you can do better elsewhere, not only now but over a period of time. (End of reprint.)

The Loan Package

Banks, other lending agencies, and investment firms all demand extensive documentation of a loan application. Before preparing a loan package, check with the specific lender to determine exactly what they require in a loan package and pick up the necessary application forms. Almost any loan package should include the following information:

1. Personal background information including a resume, experience in the field, educational and work history, credit references, income statements and a recent personal financial statement.

2. A summary of the business, including a description of the business loan, repayment terms, equity or investment of the borrower, and security or collateral for the loan.

3. A complete business plan (see the final LAP "Putting It All Together" for four different outlines of business plans).

Bank of America publishes an excellent guide for developing a loan package. It is entitled "Financial Small Business," Small Business Reporter, 13 (7), 1976. It is available free of charge at any Bank of America Branch Office.

Evaluating a Loan Request

There are five basic criteria that most loan officers take into consideration when evaluating a loan package. They are listed below:

1. Character - the applicant's attitude toward credit will be examined, including her past credit history.
2. Capacity - the applicant's ability to pay back the loan. Sources of income that would have a bearing on her ability to pay back the loan.
3. Capital - the applicant's personal worth, i.e., savings, property, stocks, bonds, or any other personal or real property.
4. Conditions - the loan officer also considers the economic conditions of the particular industry within which you're starting a business, the community, the state, and the nation when evaluating a loan application.
5. Experience - the applicant's experience in the business or related expertise, skills, and managerial experience.

Selling Your Idea

Perhaps the least talked about but equally important aspect of obtaining financing for a new or old business is the ability to sell your idea to the loan officer or investment representative. You may have prepared an excellent business plan and loan package but unless you can communicate your business idea and plan effectively with the loan officer, you may very well not obtain the loan.

The primary message you want to convey to the banker or other lending representative (in addition to your business plan) is self-confidence, competence or know-how, commitment, and enthusiasm for your business and for yourself. There is no one way to communicate this message but you must think about it and practice it before you can communicate it to others.

Practice talking about your business with friends and family. Ask them to give you suggestions on the way you communicate. Watch yourself in a mirror to see how you communicate with your body. Then have a preliminary interview with your banker to informally discuss your business plan and the loan process.

The following article on new credit rights for women appeared in the July, 1977 issue of New Dawn. We have reprinted here by the courtesy of Dawn Publications, Inc.

SELF-SERVICE: CASH FLOW

GIVING CREDIT WHERE IT'S DUE

BY NANCY DUPLESSIS

Although the right of women to get into debt on their own may not sound like liberation, the opportunity to establish credit histories and to borrow money or to charge merchandise is important for economic self-sufficiency.

Until the recent passage of new laws, women, single or married, were often denied credit. Married applicants had the hardest time because many states traditionally made husbands legally liable for "necessaries" their wives bought. Also lenders assumed young wives would stop working and thus not have sufficient income to be "creditworthy." So a married woman's credit history was usually absorbed into her husband's—although there's no such thing as "joint credit" unless a specific joint application has been filed.

"Creditworthiness" is the ability and willingness to repay debt, based on your past credit experiences and income. Creditors also look at such signs of stability as employment at one job for a number of years, residence in one city for a long period of time, ownership of a house or apartment, or simply the existence of a telephone in your name. In the past, if a credit officer did not consider you a good risk, he could turn you down without giving you any reason at all.

Now things have changed, and it's important to know that new laws forbid discrimination on the basis of sex or marital status during application for credit or any credit transaction. Creditors must not demand information about childbearing intentions or capacity or birth control practices, and must consider part-time work, alimony and child support as income for determining creditworthiness. You now have the right to examine your credit file, and you are entitled to a written explanation of a credit denial. Since both state and federal regulations apply, rules vary in different locations and you may want to seek professional advice—free or for a nominal fee—at one of the 167 consumer credit-counseling offices around the country. (To locate the nearest office, write the National Foundation for Consumer Credit at 1819 H Street, Washington, D.C., 20006.)

The important thing is to establish a credit history—the record of your borrowing and repayment kept at a credit bureau. Used by retail stores and banks, a credit bureau files outstanding credit and civil judgments in the metropolitan area, notes delinquencies on loans and retail credit and the use of an attorney or agency to collect past debts, and records what is borrowed and how it is paid back.

In order to obtain credit you must have a personal credit history. Begin by declaring your financial independence with checking and savings accounts in your own name. (This means your given name and either your maiden or married surname—not "Mrs. John Smith.") In all personal money matters never volunteer information about your spouse, and be sure this is legally required before you supply this financial data. If you are getting married, write to your creditors telling them you want to maintain credit separate from that of your husband, and explaining that you will continue to be as creditworthy as before. Federal law prohibits creditors from forcing women to reapply for credit just because they become married, separated or divorced.

To get an active credit history, you have several choices. First, you may open a charge account in your own name at a retail store that subscribes to the main credit bureau in your town. Just ask the store for the bureau name and look up the address under "Credit Reporting Agencies" in the phonebook. You may also get bank credit cards (such as Bank Americard or Master Charge) or a checking account with a "Line of credit," both of which allow you to charge or cash a check for more than your actual balance up to a ceiling based on your income. These are the cheapest ways since, if you pay your bills on time, no interest is charged. According to April Klimley of Citibank's Public Affairs Department in New York, "the criteria for a bank credit card are very low so this is a good way for women to establish credit." Your alternative is costly but faster. You may take out a small loan—about $1000. All loans have annual percentage rates (often around 12%) charged against the amount borrowed, so shop for the best bet. Six months of prompt repayments will build a good credit history. If you place the money in a savings account (where it earns you interest), you may then pay the outstanding balance before it is due, and save money.

Be sure to scrutinize your finances before doing any of the above. Assess salary, savings account and assets such as insurance or a car. Never borrow or attempt to establish an active credit history unless you can really afford it.

If denied credit, first check your credit history by getting a reprint from your bank's credit bureau. (They will send you this for about $4, or for nothing if you say you need the information to contest a credit denial.) Always obtain the reason for refusal of credit *in writing*. If you disagree or feel it is unfounded, complain. First notify your credit officer of your intention (to allow him a chance to relent), then send a letter by registered mail to the company's chairman of the board and to its complaint department. Or notify your local consumer protection agency. (If a lawyer writes the letters, results may be faster.) If necessary, contact the federal agency that regulates the lender against whom you wish to complain (given below). Remember, keep informed of your rights, and always defend them.

How To Use the Federal Law

You have to go directly to the federal agency that regulates the lender you want to complain about. Here is a list of lenders and their federal regulators, all located in Washington, D.C., unless otherwise indicated:

State-Chartered Banks If bank is a member: Federal Reserve Board or Federal Deposit Insurance Corp.

National Banks Office of the Comptroller of the Currency, or—in New York State—Office of the Administrator of the Second National Bank Region, 33 Liberty Street, New York, N.Y. 10005 (212) 264-4380

Savings & Loans Federally chartered and/or insured: Federal Home Loan Bank of New York, 1 World Trade Center, New York, N.Y. 10048 (212) 432-2053

Credit Unions Federally chartered and/or insured: National Credit Union Administration

Stocks and Bonds Securities and Exchange Commission

Airlines Civil Aeronautics Board

If you still can't figure out which agency to contact, write the Office of Saver and Consumer Affairs, Federal Reserve Board, 20th and Constitution NW, Washington, D.C. 20551, and they will refer you to the appropriate agency—*from "Borrowing Basics for Women," Citibank, New York, New York, Copyright 1976.*

SAMPLE Credit Application Form SAMPLE

Fi3

Application For Ready ReservAccount / Bank Credit Card / Check Guarantee Card

BANKING OFFICE NO.

ACCOUNT NUMBER

INDICATE TYPE OF BANK CARD PREFERRED:
- ☐ MASTER CHARGE CREDIT CARD
- ☐ VISA CREDIT CARD
- ☐ CHECK GUARANTEE CARD

SERVICE REQUESTED WITH CREDIT CARD:
- ☐ READY RESERVACCOUNT/CHECK GUARANTEE CARD
- ☐ INCREASE CREDIT LINE TO $____________

NUMBER OF CARDS REQUESTED

NOTICE TO MARRIED APPLICANTS:

If married, you may apply for either separate or joint credit:

Separate Credit – Complete this form and sign as Applicant.

The Spouse Information Section must be completed and the Consent To Gather Credit Information signed by your spouse if you are a resident of California.

If you are separated from your spouse you need not complete the Spouse Information Section or have your spouse sign the Consent To Gather Credit Information.

Joint Credit – Both you and your spouse should complete this form and sign as Applicants.

If you are married and not separated, and unless you indicate otherwise, all stated income and assets will be presumed to be community property and all stated debts and obligations will be presumed to be liabilities of the community property.

THIS IS AN APPLICATION FOR: ☐ JOINT CREDIT ☐ SEPARATE CREDIT (If married, will spouse use account? ☐ Yes ☐ No)

NAME IN FULL | AGE | SOCIAL SECURITY NUMBER

HOME ADDRESS - NUMBER, STREET, CITY, STATE, ZIP CODE | YEARS RESIDENCE

MARITAL STATUS ☐ MARRIED ☐ UNMARRIED ☐ SEPARATED

TELEPHONE NUMBER HOME ____________ BUSINESS ____________

PREVIOUS ADDRESS - NUMBER, STREET, CITY, STATE, ZIP CODE | YEARS | NO. OF DEPENDENTS

YEARS OF EDUCATION ☐ UNDER 12 YRS. ☐ 12 YRS. ☐ 13 - 15 YRS. ☐ 16 & OVER

EMPLOYER'S NAME & ADDRESS - NUMBER, STREET, CITY, STATE, ZIP CODE | YEARS ON JOB | PRESENT POSITION | MONTHLY GROSS SALARY

PREVIOUS EMPLOYER'S NAME & ADDRESS | YRS. PREVIOUS JOB | DESCRIBE OTHER INCOME | MONTHLY AMT.

INCOME, ALIMONY, CHILD SUPPORT, MAINTENANCE (REVEAL AT YOUR OPTION.) * ☐ YES ☐ NO | NUMBER OF YEARS/MONTHS RECEIVED | MONTHLY AMT.

*****You do not have to list income from alimony, child support or maintenance, unless you want us to consider it for the purpose of making this loan.*

RESIDENCE ☐ OWN ☐ RENT | NAME OF LENDER | DATE PURCHASED | PURCHASE PRICE | BALANCE OWING | MONTHLY PMT.

ALIMONY, CHILD SUPPORT, MAINTENANCE, PAYMENT OBLIGATIONS — TO WHOM PAID; ADDRESS | MONTHLY PMT.

CREDIT CARDS HELD ☐ OIL CO. ☐ AMERICAN EXPRESS ☐ BANKAMERICARD ☐ DINERS ☐ CARTE BLANCHE ☐ MASTER CHARGE | LIST ACCOUNT NUMBERS OF CREDIT CARDS | TOTAL MONTHLY CREDIT CARD PAYMENTS

TO WHOM INDEBTED	ACCOUNT NUMBER	BALANCE OWING	MONTHLY PAYMENT

SPOUSE'S INFORMATION SECTION

NAME | EMPLOYER'S NAME | YRS. ON JOB | PRESENT POSITION

SOCIAL SECURITY NUMBER | EMPLOYER'S ADDRESS | MONTHLY GROSS SALARY

TO WHOM INDEBTED	ACCOUNT NUMBER	BALANCE OWING	MONTHLY PAYMENT

YOUR BANK'S NAME AND ADDRESS

- ☐ CHECKING ACCOUNT NUMBER ____________
- ☐ SAVINGS ACCOUNT NUMBER ____________
- ☐ LOAN ACCOUNT NUMBER ____________

TOTAL ALL MONTHLY PMTS. (YOURS & SPOUSE)

☐ AUTOMATICALLY TRANSFER FUNDS FROM MY CHECKING ACCOUNT FOR MY MINIMUM MONTHLY PAYMENTS.

If you have any other debts or obligations not listed above or that are in a name other than that stated above, please list them in the "Debts" section above.

The information I have provided in this application is true and correct to the best of my knowledge. I authorize the Bank to gather whatever credit information it considers necessary and appropriate concerning such information. I understand that the Bank will consider this to be a continuing statement of financial condition and therefore agree to notify the Bank in writing of any material change in such financial condition.

APPLICANT'S SIGNATURE | DATE | SPOUSE'S SIGNATURE | DATE

(Spouse's signature not required if this application is for separate credit.)

SAMPLE Application Form (continued)

CONSENT TO GATHER CREDIT INFORMATION

(To be signed by spouse of credit applicant)

TO:

In connection with this credit application of my spouse and because Regulation B, Section 202.5(c) permits the Bank to gather credit information about both spouses whether one or both spouses apply for credit, I authorize the Bank to make whatever inquiries it considers necessary and appropriate for purposes of evaluating my spouse's credit application and reviewing and collecting the credit should it be granted.

Date: ______________________ ______________________________

Signature

Important Notice!

Credit history for married persons

The Federal Equal Credit Opportunity Act prohibits credit discrimination on the basis of race, color, religion, national origin, sex, marital status, age (provided that a person has the capacity to enter into a binding contract); because all or part of a person's income derives from any public assistance program; or because a person in good faith has exercised any right under the Federal Consumer Credit Protection Act. Regulations under the Act give married persons the right to have credit information included in credit reports in the name of both the wife and the husband if both use or are responsible for the account. This right was created, in part, to insure that credit histories will be available to women who become divorced or widowed.

If your account with us is one that both husband and wife signed for or is an account that is being used by one of you who did not sign, then you are entitled to have us report credit information relating to the account in both your names. If you choose to have credit information concerning your account with us reported in both your names, please complete and sign the statement below and return it to us.

Federal regulations provide that signing your name below will not change your or your spouse's legal liability on the account. Your signature will only request that credit information be reported in both your names.

If you do not complete and return the form below, we will continue to report your credit history in the same way that we do now.

- -

When you furnish credit information on this account, please report all information concerning the account in both our names.

Authorized Buyer:

____
Account number

____
First Initial Last
(Print or type name)

Account in the Name of:

____
First Initial Last
(Print or type name that appears on charge card.)

____
Signature of either spouse

A BUSINESS OUTLINE

Write a brief outline of your business following the guide presented below.

1. Write a statement about your background and why you feel qualified to start your business. Attach your resume.

2. Write a brief description of your proposed business. Include the following points.

    a) What is the legal form of business?

    b) What is the nature of your business? (Where will it be located, what are the products or services, etc.?)

    c) Show the demand for your business (based on your market research and market plan).

    d) Indicate any business orders you've already taken.

3. Write a statement about the financing of your business. Include the following points.

    a) What is your personal financial worth? Attach your personal financial statement.

    b) How much you want to borrow and how much you intend to invest from your personal savings, etc.

    c) Indicate how you will use the money and how you will repay the loan.

4. As a summary, indicate why you think your business will be a success and how you plan to operate it. (Will you manage it? Will it be open 7 days a week? Will you hire employees? Do you have suppliers?) Don't be modest in selling your idea!

5. Now practice presenting the information you've included in your outline by yourself and then to others. Be prepared to present it informally to a member of the class.

LOAN INTERVIEW

After reading the three factsheets in this LAP and preparing a two-page description of your business, make an appointment with a loan officer and have a preliminary interview about business loans. After your interview complete this interview form.

A. Go to your own bank or select a bank according to the tips suggested in the factsheet, "Guide to Obtaining Financing."

B. Call the loan department and ask to set up an interview with a loan officer to discuss how to apply for a loan. Explain that it is to be a preliminary interview. If they can't or won't set up an appointment ask for a referral to another bank.

C. Be prepared with the following information before the interview and volunteer this information during the interview. Don't wait to be asked!

- Decide how much you would ideally like to borrow.
- Have a completed personal financial statement.
- Prepare a brief description of your business idea and plan.
- Decide how much of your own money you can invest (it should be 40-60% of the amount you're asking for). For example, if you are asking for $10,000 you should have $4,000-6,000 of your own money to invest.
- If married, decide whether you would be applying for a loan independently from your husband or jointly as husband and wife.

D. During the interview ask for the following information:

- Find out whether the bank specializes in any particular type of business loan.
- Ask for a copy of their loan application form.
- Ask about the procedures for applying for a loan and what is required in the loan package.
- If during the interview the loan officer says that she/he couldn't or wouldn't consider a loan application from you, kindly ask for an explanation why. Ask for advice and/or referrals. Thank her/him for the interview.

E. After the interview answer the following questions:

1. Date and time and length of interview:

2. What bank or lending agency did you visit?

3. What was the title of the person with whom you had the interview?

4. Did you feel prepared for the interview? _____Yes _____No
Please explain your answer:

5. What questions did the loan officer ask you?

6. What information (and materials) did you get from the loan officer?

7. What problems did you encounter?

8. Did you change your business idea or estimate of the amount you want to borrow based on the information you received in the interview?

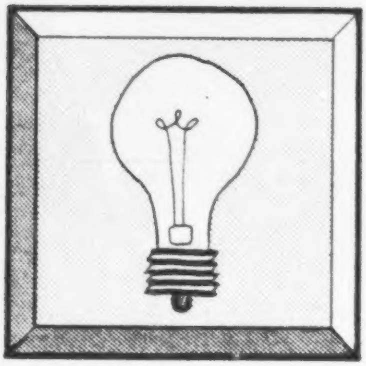
9. What overall impression did you have of the interview?

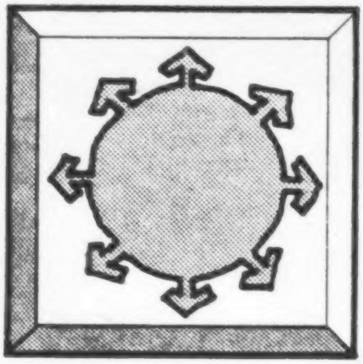
10. Do you consider this bank as a potential lending source to start your business? _____Yes _____No

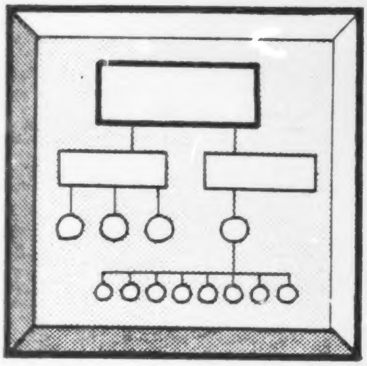
Explain your answer:

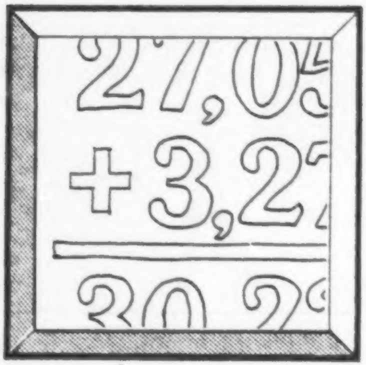
11. Any other comments or questions:

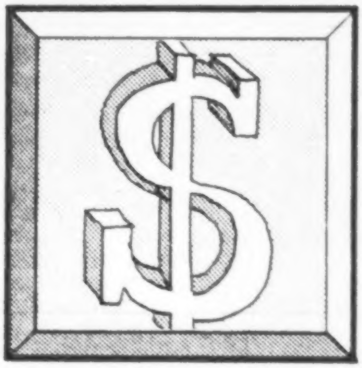
Op

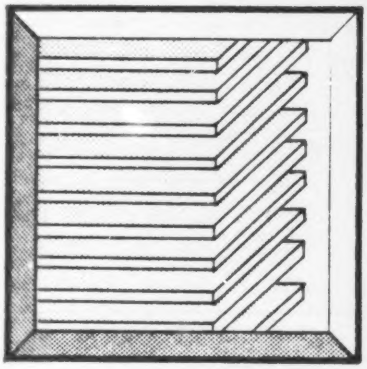












Operations

Running Your Business

The day-to-day responsibilities of the owner of a small business usually include all aspects of the operation of the business. If you are starting a retail, wholesale, or manufacturing business, two key aspects of operating a business are inventory and buying. They deserve careful attention and planning if the business is to be profitable. This LAP introduces you to the basic principles of these two areas of business operations.

Regardless of the type of business you start, if your business succeeds it will grow. As you grow it will become increasingly important to be able to hire and train employees and delegate authority. A section of this LAP deals with employees--how to find, hire, train, motivate and terminate employees.

Developing good human relations skills is also central to operating a business. The way you communicate and interact with your employees, your customers, and the general public in your community will create the atmosphere and image of your business.

When you have completed the Operations LAP you will be able to:

1. Describe and categorize the major inventory items for your business.
2. Estimate your initial inventory requirements.
3. Choose several different potential suppliers for your business and list their strong and weak points.
4. Identify several different types of inventory and buying records and explain why it is important to maintain good inventory and buying records.
5. Write a job description and identify several employee sources.
6. Describe at least three ways in which you could play an active role in community affairs.
7. List the policies and rules you plan to establish in your business in order to build the image you want to create.

Before your next class: Review the materials in the LAP. Read the fact sheets: "Inventory," "Buying," "Employees," and "Human Relations."

ACTIVITIES

The activities listed below are designed to guide your learning about important aspects of operating your business. If you follow them step by step you should be able to meet the six goals of the Operations LAP.

1. Attend a class presentation on Operations and participate in the question and answer period.

On your own...

2. Follow the steps outlined on the "Defining Your Inventory" worksheets to begin to identify the major inventory items you plan to stock in your business.

3. Follow the steps outlined on the "Choosing Your Supplier" worksheets to begin to collect the necessary information on which to develop a list of potential suppliers for your business.

4. Assume your business is at the point that you must hire an employee to help you out. Decide what responsibilities you would want an employee to assume and then write a job description using the "Writing a Job Description" worksheet. Refer to the "Employees" fact sheet to assist you in this exercise.

5. Begin to consider ways in which you, as a business owner, can become active in community affairs, by completing the worksheet on "Building Community Relations." The section on community relations in the "Human Relations" fact sheet may help you complete this activity.

6. Establish some rules and policies for your business that are consistent with the image you hope to create, by filling in the "Rules and Policies" worksheet. Reread the fact sheet on "Employees" in this LAP, as well as the "Human Relations" fact sheet.

7. Choose a partner and conduct an interview between an employer and an applicant. Then reverse roles with your partner and conduct a second interview.

    a. Use the job description prepared in your "Writing a Job Description" worksheet as a basis for your interviews.

    b. Give suggestions and ideas to your partner in both her role as a candidate and as the employer.

    c. Keep in mind that this is an exercise in effective two-way communication.

8. Divide into small groups with people who plan to open a similar type of business (i.e., retail, manufacturing). Using the reading and worksheets you completed for a starting point, brainstorm and develop:

   a. a list of rules and policies that would help a business build strong employee, customer, business associate and community relations;

   b. a list of ways in which a business could assist community organizations; and

   c. be prepared to present your lists to the class.

MATERIALS

The materials that should be included in your LAP are:

Fact Sheets:

Inventory
Buying
Employees
Human Relations

Worksheets:

Defining Your Inventory
Choosing Your Suppliers
Writing a Job Description
Rules and Policies
Building Community Relations

Optional Reading

Buying and Inventory

Bank of America. Small business profiles. Small Business Reporter, 1972-1976. A series of profiles on different types of businesses. It provides a general picture of a particular business including excellent discussions of buying resources, buying terms and discounts and inventory turnover and operating ratios figures for that industry. It is a must as you develop your purchasing and inventory plans. A list of the profiles should be available from your instructor(s). You may obtain a copy free of charge at any Bank of America community office or at the cost of $1.00 from Small Business Reporter, Bank of America, Department 3120, P.O. Box 3700, San Francisco, Calif. 94137 (phone 415-622-2491).

Harling, E. L. Stock control. SBA: Small Marketers Aids No. 123, 1966. A brief and basic overview of effective stock control practices for the small store using the unit control method.

Inventory Management. SBA: Small Business Bibliography No. 75, 1976. A brief and basic introduction to managing your inventory. It also provides a good list of additional publications for further reading on the subject of inventory.

Komenda, F. J. Sweeping profit out the back door. SBA: Small Marketers Aids No. 138, 1972. A brief overview of reducing losses in a small business through inventory and pricing control.

Van de Mark, R. L. Controlling inventory in small wholesale firms. SBA: Small Marketers Aids No. 122, 1966. This Aid suggests ways for providing adequate customer service while keeping the inventory investment to a minimum. Samples of simple inventory control records are also included.

Zwick, J. A handbook of small business finance. SBA: Management Series No. 15, 1975. Presents a clear explanation of inventory turnover with a good example of how to compute it and what it means (pages 25-27).

Employees and Human Relations

Bank of America. Personnel for the small business. Small Business Reporter, 9 (8), 1970. This is a good report which is directed primarily to the owners of small retail and service firms. It covers the complete employment circle--advertising, interviewing, hiring, training and termination. See Bank of America reference above for where and how to obtain a copy.

Bruce, M. M. Human relations in small business. SBA: Small Business Management Series No. 3, 1969. This booklet focuses on employer-employee relations. In addition to discussing how to select, train, develop, and motivate employees, ways in which a business owner can develop her skills in human relations and create a climate in which employees will work efficiently are included.

Cruger, F. M. Pointers on preparing an employee handbook. SBA: Management Aids for Small Manufacturers No. 197, 1976. Many small business owners use employee handbooks to give their workers information on policies, wages, and employee benefits. This aid provides suggestions on topics to include presentation and format for an employee handbook.

Matts, R. How to write a job description. SBA: Management Aids for Small Manufacturers No. 171, 1976. This Aid outlines a simple method for analyzing and describing the contents of a job. Sample forms are included.

Miller, R. W. Profitable community relations for small business. SBA: Small Business Management Series No. 27, 1961. The importance of community relations for small businesses, the various communities within a community, and ways to build and maintain community relations are discussed.

Raines, I. I. Better communications in small business. SBA: Small Business Management Series No. 7, 1962. This booklet is especially geared toward small manufacturers. It's designed to explain how to communicate successfully both with company employees and with people outside the business, including suppliers, customers, and the community. Two-way communication and the need for communicating for results are stressed.

Raphelson, R. Finding and hiring the right employee. SBA: Small Marketers Aids No. 106, 1964. Three steps are presented in this Aid to help the owner find and hire an employee--1) deciding what kind of skill is needed, 2) contacting sources which can help recruit people, and 3) screening applicants in order to pick the right one. Sample application forms are also included.

Wantola, S. Delegating work and responsibility. SBA: Management Aids No. 191, 1967. This brief aid discusses how to effectively control employees who carry responsibility and authority and how to help them in self-improvement.

An inventory is simply the merchandise you have for sale in a business. It is also referred to as your stock. Taking inventory is counting and making a record of all the merchandise available in the business for sale at a given point in time. Different types of businesses have different inventory times depending on the turnover rate and seasonal nature of the business. A discussion of inventory turnover rates and estimating initial inventory needs is presented in the following fact sheet (Buying), page 182.

Inventory Control

It is important to set up a good inventory control system for a number of reasons, which include: preparing tax reports, determining your profit margin, preparing your merchandise plan, identifying hard-to-sell, obsolete, or damaged goods, and as part of a loan package.

In order to set up a good inventory system it is necessary to maintain accurate records of your purchases, your sales, and your inventory "turnover." The result of good recordkeeping and an inventory system is control over your inventory and thus control over your profit margin and your cash flow. For example, certain items will be slow moving and others will be fast moving. Knowing which are which and at what rate they sell will help you purchase accurately. In this way you can avoid overbuying or underbuying.

Merchandise or inventory can be classified into different categories which will help you in setting up and maintaining a good record system. Decide what your basic stock is, your fast items, your special or unique items, and your promotional items (to be sold as bargains, eye catchers, sales, advertising, etc.). Then keep track of how much you sell of each for a given period of time. Your sales receipts will serve as a basis for these records as will your buying plan.

One way to keep track of customer demand is to fill out a card each time a customer requests an item not in stock. Such records are called "want slips." There may be enough want slips in a given period of time to warrant buying more of a certain item(s).

Another method of inventory control is through "mark downs." Mark downs are price reductions on items that are slow moving. Timing is most important in mark downs. If you mark down an item too late, there will be little or no demand for it. If it is marked down too early, you lose some profit. It is better, however, to lose some profit by marking down items too soon than to be stuck with items you can't get rid of.

Dating your inventory is another way to control your inventory and insure that older stock is sold first. A common method of dating is called the FIFO method of selling stock. It means "First In First Out." New merchandise is stacked behind old merchandise, and thus the older items go first. Other simple systems are used to date merchandise such as letters for the months in a year or letters for the month and numbers for the weeks or days in the month. For example, B-10 would mean February 10th, or D-4 would mean April, fourth week.

Several different inventory records are listed below:

- Perpetual inventory record--a card should be kept for each item or group of items. Each time an item is either sold or taken out of inventory, reduce the item count. Periodical physical inventories are still necessary to verify the accuracy of the cards.
- "Want sheets"--this record is designed to inform you that it is time to reorder an item. In order to avoid a running-out-of-stock situation it is important to note turnover rates of items.
- Order file--this record allows you to follow accurately the orders that have been made and the expected date of their arrival.
- Returned merchandise record--this file is useful in keeping accurate information regarding amounts of obsolete materials and reasons for returning the goods.

Taking Inventory

The basic procedure that is a "must" in inventory control is taking physical inventories periodically, e.g., monthly or quarterly. If you have a variety store or your line of business carries many items, you may find it useful to check your inventory on a daily basis in terms of dollars. In addition, however, you should take physical inventories in order to check the inventory by items.

Taking inventory is simply physically counting and recording all the merchandise that is for sale in the business. The simplest method of taking inventory is to develop a checklist indicating the type of item, the minimum amount that should be carried, the amount on hand at a given time and the amount that needs to be ordered.

Date __________

Type of item	Minimum amount to be stocked	Amount on hand	To be ordered

For more complex and larger inventories there is the unit control record. It is referred to as a perpetual inventory control because it is kept up-to-date every day. A card is made for each type of item, and every time an item is sold it is recorded on the card.

Item name ____________________

Minimum to be on hand __________

Retail Price __________

Ordered			Received		Sold		On Hand	
Date	Qty	Supplier	Date	Rec'd	Date	Qty	Date	Qty

Once a year a complete inventory of all merchandise should be taken. Again a checklist of all items should be used as a summary of all the inventory.

Type of Merchandise: __________________________ Date: ________________

Age of merchandise: ___________________________

Article No.	Description	Qty	Unit	Cost		Selling	
				Unit	Total	Unit	Total

These sheets will provide you with a summary of all your merchandise, which sold most quickly and what didn't sell. It will tell you how your capital is being used and what pays off and what doesn't.

Pricing Your Inventory

The Marketing 2 LAP in this notebook contains a fact sheet on "Setting Prices," pages 57-60. Refer to that fact sheet for a general discussion of pricing considerations. Trade associations and suppliers have tables available which give pricing guidelines and typical or average mark-up ranges for a given industry. These are important sources of information that should be used when setting prices for your merchandise.

Whether you are starting a retail, wholesale or manufacturing business, skillful buying will play a key part in determining the success of your business. There are several points to consider before deciding what to stock, how much to stock, or from whom to buy. These points are presented below:

What to Buy?

Deciding what merchandise to stock and sell in your store depends on the type of business you've decided to start and on your marketing research and market plan. In addition, you need to do some research on the type, brands, colors, sizes, styles, and quality of the merchandise you want to stock in order to determine what is available and what will meet your customer's needs or likes. You also need to pay close attention to trade journals, catalogs, salespersons, competition and your customer's preferences to help you determine what to buy?

If you are going to open a small retail store, it is a good idea to specialize in a select number of items rather than carry a wide range of stock. In that way you can afford to carry more depth (choices in sizes, colors, etc.) than if you spend your capital trying to stock a wide range of merchandise. This will also allow you to maintain better control of what sells and develop a reputation for selling certain items.

Remember to buy only the merchandise you intend to specialize in. Buy what your customers like, not what you like or dislike. It is a common mistake for a new business owner to buy according to her/his own tastes rather than the customers' tastes. Don't let it happen to you.

Choosing Your Suppliers

Deciding on your suppliers first means knowing what you want to buy and then finding suitable suppliers who carry the kind and quality of goods you have decided are best suited for your customers. Suppliers include wholesalers, manufacturers or buying agents. In each case there are advantages and disadvantages:

- The local wholesaler may give you better services in terms of credit, discounts, etc. The fact that it is a local source will probably save on delivery costs. However, the assortment or choice of merchandise may be limited.
- The manufacturer may offer reduced costs since there is no middleman or go-between. However, finding a manufacturer in your area is not always possible and, therefore, delivery expenses may go up.
- Buying agents may save you time if they are skilled and knowledgeable about your type of business. However, they are usually expensive and it's difficult to find a reliable agent.

There are two basic approaches to use when determining who will be your suppliers. First, you may buy from several different suppliers in order to gain a greater variety of merchandise and to get the best price and quality for your money. However, the disadvantage with this approach is that it is more difficult to form a close relationship with each supplier and therefore you risk not getting preferred treatment and "special" deals. You may also tie up more of your cash in small investments at several sources. Recordkeeping will also be more complex when you use this approach. Second, you may concentrate your purchases with as small a number of suppliers as possible. This approach gives you the advantages of:

- receiving more attention and help from your suppliers because you are giving them most of your business;
- having a smaller inventory investment;
- having larger purchase orders which may result in larger discounts;
- simplifying recordkeeping and credit problems;
- establishing a reputation with the suppliers and the community as the seller of a certain line or brand of merchandise (if you are in a retail business); and
- maintaining a fixed standard in your products (if you are buying materials to be used in making other goods).

For most small businesses it is usually better to develop good relationships with a few suppliers rather than to buy from a large number of them.

In choosing suppliers you should carefully consider the following:

- Do they carry the right merchandise?
- Are their prices reasonable? Conduct research on prices offered by different suppliers before you approach those you plan to deal with. This way you are familiar with the market and are in a better position to negotiate or judge terms you are presented with.
- Is the location convenient? Take into account shipment, delivery, etc. If these aspects are not included in the price, distance may make a great difference in the total cost of the purchased merchandise.
- Are they offering convenient services? What kinds of delivery services do they offer? What is their delivery schedule? These factors are important in planning your ordering.
- What is their reputation? Contact people who are currently using the supplier(s) or used them in the past, for establishing the dependability of the suppliers. Try to identify weak and strong areas and weigh them against your particular needs.

- What are their standard conditions and terms? Are their credit terms reasonable? Can you meet them? This information is essential for determining cash need for the ordering of merchandise and use of services.

When to Buy and How Much?

The answers to these two questions depend on the rate of stock turnover for your business. The "turnover rate" is a term which means simply the number of times a store's inventory is sold and replaced within a given period of time--usually a year.

A simple way of figuring your turnover rate is to divide your estimated cost of coods sold (using industry averages) by your estimated average inventory for the year (how much you will stock). For example: Mary's Used Furniture Store had an initial inventory of $18,000 and an ending inventory of $9,000, and the cost of goods sold was $59,000. Her turnover rate would be as follows:

$$\text{Inventory turnover} = \frac{\text{cost of goods sold}}{\text{average inventory}} = \frac{59{,}000}{1/2(18{,}000 + 9{,}000)} = 4.3$$

This means that Mary "turned" her inventories 4.3 times during the year. Generally speaking, the higher the turnover rate the better. It means that a business has been able to sell the merchandise it has stocked and thus has had cash on hand to buy new inventory and pay the business' overhead (or operating expenses). You can obtain average turnover rates for most types of businesses through trade journals and other standard industry average sources (Dun and Bradstreet, Robert Morris, Bank of America, etc.).

In order to estimate your initial inventory requirements it is advisable to use the abovementioned sources of industry averages and your estimated sales volume for the first year. It is important not to overestimate your sales volume for the first year because you will then overbuy (or overstock) your inventory. Unsold inventory ties up your working capital and results in a loss of profit for your business.

Knowing your "turnover" rate will help you determine when you will need to buy new merchandise. In addition, accurate, up-to-date inventory records will tell you more specifically when you will need to stock up on each inventory item that you stock. A discussion of inventory records (control) will be presented in the following fact sheet.

Besides taking into consideration your turnover rate when determining how much to buy and when to buy, you need to watch the market in your area carefully in order to stock up on items when demand is rising (such as seasonal buying, trends, economic conditions) and decrease your purchasing when demand is declining. Taking advantage of special discounts from suppliers for prepayment or for large orders is also important.

Remember not to overbuy. Overbuying is a common problem for new business owners, largely resulting from overestimating sales volume for the first year. An oversupply of goods (or inventory) usually creates storage problems, may result in spoilage, almost always ties up too much cash (working capital) and leads to loss of profit.

Recordkeeping

It's important to set up and maintain accurate and up-to-date records of your purchases. A discussion of stock control record systems has been presented in the preceding Inventory fact sheet of this LAP. A sample purchase order sheet is provided on the following page. Maintaining a file of purchase order sheets with delivery dates, etc., recorded on them is one simple way to keep track of purchases.

A simple method for maintaining records of potential suppliers is to set up an index card for each supplier with the following information.

1. Name of supplier
2. Phone
3. Address (street, city, state, zip code)
4. Name of contact person and name of owner(s)
5. Merchandise you're interested in and brief comments about it
6. Other comments (about supplier, credit terms, delivery, etc.)

Summary

The steps to follow in purchasing merchandise for your store are as follows:

- Estimate the demand for the merchandise you want to carry by referring to your market research and market plan.
- Estimate your initial inventory needs by referring to industry averages for your type of business.
- Decide the type, brand, size, quality, etc., of the item(s) you want.
- Shop for a source.
- Reach an agreement with the supplier as to price, payment terms, delivery, etc.
- Place an order using a Purchase Order form; keep a copy of the form with date and time of order.
- When the material is received, mark it on the order form and inspect the item(s) before accepting the order.
- Give the stock a number and put it in your inventory.
- Watch the sales of the item and keep a record of what's sold.

Op2

Sample
Purchase Order Sheet

PURCHASE ORDER

Store: Mary's Used Furniture Store

Phone:

Address:

City: Los Angeles

State: California

Zip Code: 90000

VENDOR

Name: Paul's Antique Store

Address:

City: Los Angeles

State: California

Zip Code: 90000

Date Wanted:

Phone:

Quantity	Unit	Description	Unit Price	Total
2	Each	Sofas, used, as identified at auction, No. 105 and No. 35	$100	$200

Totals: $200

Date Ordered: 9/10/77

Authorized Signature: Mary Jones

Terms: C.O.D.

How Shipped: Truck

Your Invoice Number: 1530

The Buying Plan

An important part of managing your business, particularly if it is a retail or wholesale business, is to develop a buying plan. A buying plan is simply a record of the activity of your buying and inventory. It is an outline or schedule of your buying activity. A sample buying plan appears below.

Buying Plan

Period from __________ to __________

Item(s) (Merchandise) ______________________________________

	Months:	1	2	3	4
End of Month Retail Stock	Planned				
	Actual				
Retail Purchases	Planned				
	Actual				
Sales	Planned				
	Actual				
Markdowns	Planned				
	Actual				
Gross Profit in Dollars	Planned				
	Actual				
Gross Profit in %	Planned				
	Actual				

Open to Buy

A more sophisticated method to help you budget your inventory purchases during a specific period of time is known as a business's "open-to-buy" position. It is the amount budgeted for inventory expenditures during a specific period (generally three months).

To calculate a business's open-to-buy position for a given period, you must figure your planned inventory level and anticipated sales volume for the specified period of time. These two figures are added together and then subtracted from the total current inventory on hand and on order. Both these figures are based on "at cost" prices. For example:

Planned inventory (at cost)	$20,000
Planned sales (at cost)	+ 20,000
	$40,000
Actual inventory on hand	$12,000
Inventory on order	+ 10,000
	$22,000
	$40,000
	- 22,000
Open-to-buy =	$18,000 = amount left to spend during period on inventory

Open-to-buy figures are not firm figures. There should be room to reduce or increase the buying budget depending on demand and seasonal business.

Before starting a business, the prospect of hiring employees seems to be of minor concern in relation to the overall number of problems you must juggle. Once you have expanded beyond the "one-woman" operation, however, and feel you need some help, finding qualified, reliable and affordable personnel can become an important part of building a successful business.

Decide What You Need

Before rushing out and hiring your brother-in-law's nephew to "mind the store," you should carefully consider what your needs are in a new employee. There may be other and more efficient ways of accomplishing a job than adding someone to the payroll on a full-time basis. If your work is seasonal in nature, you may want to consider the use of temporary help to get you through the overload. If you already have other employees, you may want to ask them if they would like to put in some overtime to meet the increased demand. Consider the workload itself to see if there might be other ways of handling it besides adding a new employee. For example, if you have to spend a considerable number of hours working on your books, and need someone to wait on customers, the more logical decision may be to hire an accountant on a part-time basis to do your books, thus freeing you to wait on customers.

If, after considering the alternatives, you have decided you still need to hire someone, don't call your nephew yet! As a result of your thoughts about alternatives, you have probably begun to define what it is that you need the person to do. It is helpful to formalize that by writing a job description. In order to select the right employee, you should have a plan beforehand of what you want her/him to do--and then select the applicant that fills that particular need. Analyze what it is you want the person to do. What skills should she possess? The job description should cover the specific duties of the job. It should list the qualifications or technical skills required, education, training or previous experience that would be helpful, and personal characteristics desired by the employer.

Sample Job Description

Job Title: Salesperson
Full Time: 40 hours per week

Responsible to: Store Owner, Mary Jones

Requirements: Applicants must have completed high school; be good at arithmetic; have previous sales experience; be willing to take responsibility for the store when the owner is away.

Personal: Applicant should enjoy contact with people, enjoy working alone; be interested in learning dress lines; and be in good health.

Finding an Employee

Once you know what you're looking for in an employee, it makes the search and selection process much easier. The job description you've written can serve to advertise the position in a precise manner and serve as an initial screening process. It's important to recruit very broadly in order to take full advantage of the many sources of manpower supply. You can look for employees using the following sources:

1. Classified ads in the local newspapers.
2. Employment agencies - private and the state employment agency.
3. Placement offices in local colleges, technical or high schools.
4. Trade and industrial associations.
5. Unions.
6. Civic or community organizations.

Don't fail to use your personal contacts in the community to advertise your opening with friends and business acquaintances.

Screening and Interviewing

Once you have an ample number of applicants, you can begin to evaluate them for the job. The application form can be a useful tool to help with the screening process. You may want to prepare a form specifically for your job rather than relying on the standard forms found in most stationary stores. The form should be simple and straightforward, but should also supply information on employment history, education, references and any additional information which you specified in your job description.

Review the applications and resumes you have received and decide which of your applicants you wish to interview. If you have a large number of applicants you may want to establish a certain maximum number that you will interview.

The purpose of the interview is to discover facts about the applicant not evident from the written material. It is also a time for you to present facts about the job so that applicants are clearly aware of job duties, wages and benefits, as well as the job's potential for growth. Allow sufficient time to talk with the applicant. Remember the butterflies you had when you went for your first job interview! Try to provide an atmosphere where the applicant can feel comfortable to talk about herself.

After having completed the interviews, you may want to call some of the references provided by the applicant before making a final selection. Carefully listen to what the ex-employer does not say, since most will not want to spoil a person's chances at another job.

Now put all of this information together about each applicant and decide which person to hire.

Orientation and Training

Once you have selected the employee, you may feel as though you've accomplished your task. Whether the new employee becomes an asset to you and your business, however, will depend on the way in which you train her/him.

Research has proven that the first few days an employee is on the job are vital. What happens then may determine whether (s)he stays with you and is happy with the job. Try to provide a friendly atmosphere in which the employee is viewed as an integral and valued member of your company. She/he should understand how the job relates to the overall functioning of the business.

The start of a new job also brings with it an array of policies and forms and information that needs to be transmitted. Try to organize the paperwork (withholding forms, work permits for minors, insurance forms, bonding forms) and the policies and procedures (work hours, paydays, breaks and lunch hours, how to report absences, employee benefits) so that they can be clearly handled or conveyed during the first day, and the employee will have a grasp of what is expected of her/him.

Orienting a new employee in a small business is usually done by on-the-job training in which the employee follows an experienced person around until she/he knows the procedures. This is an informal method of training and is probably most appropriate to the small business enterprise.

When preparing to train your employee, break each job down into sequential steps. Keep this job breakdown sheet for future reference. Actually do the job and write down each step as you complete it. Make a note of any point needing special attention.

Make sure a new employee knows how to operate your equipment. Even if your employee has used similar equipment before (for example, a copy machine), she/he may not be familiar with your particular model or may not remember exactly how it works.

The teaching process itself should be broken down into four steps: (1) preparation, (2) demonstration, (3) application, and (4) inspection.

1. Preparation. First, find out what your new employee already knows. Remember that it is better to repeat something she/he may already know than to waste time and material later on.

2. Demonstration. Show the trainee how the job is done, following the job breakdown sheet and explaining step by step. Ask questions to make sure the trainee understands each step.

3. Application. Now let the trainee perform the task alone, while you stand by to answer any questions.

4. Inspection. Check your trainee's work frequently. Let her/him know if satisfactory progress is being made. If there is a problem, point out exactly what went wrong and why.

Motivation

Some of the principal causes of problem employees are poor selection and placement, inadequate training, incompetent supervision, failure to let the worker know exactly what is expected, and off-the-job problems.

In order to motivate a worker you must gain the respect of the employee, let her/him know what is expected and how well she/he is performing, be fair and impartial, be patient and understanding, and make each worker feel a part of your team.

In addition, motivating employees to do a good job calls for incentives. The worker wants to be recognized and treated as an individual. Take time to explain the reasons for management decisions that affect her/him personally. Keep lines of communication open.

To provide good incentives, you must know what the worker values in the job. When the following items in a nationwide poll were ranked from 1 to 8 in order of importance, the employees' ranking and the managements' were different for every item.

Ranking by Employees	What Employees Want	Ranking by Management
1	Credit for all work done	7
2	Interesting work	3
3	Fair pay	1
4	Understanding and appreciation	5
5	Counsel on personal problems	8
6	Promotion on merit	4
7	Good physical working conditions	6
8	Job security	2

Communications

"Two-way communication" is a way of getting along with people by giving them a sense of belonging and raising the level of their self-respect. A few simple rules followed consistently will soon knit a group of unrelated individuals into an effective work team.

1. Give workers a sense of participation. Ask their advice whenever they are competent to give it.

2. Make them feel important. Avoid issuing commands. Try raising questions. Encourage voluntary effort.

3. Praise your workers when they have earned it. If an employee does a little extra, let her/him know you noticed.

4. Listen, even if you know what a worker is going to say. This is a positive way to make her/him feel an important part of your organization.

Delegation of Authority

Learning to delegate authority is critical to your business' success. No one person can effectively handle all aspects of a growing business. Once you have employees, you need to begin to assign work, responsibility, and authority to them. This will allow you to concentrate your efforts on other important jobs that need to be done and it will give your employees the kind of responsibility and involvement in the business that motivates workers. Furthermore, when work and responsibility have been delegated, your employees will know how the business works and will be prepared to keep it running smoothly when you are unable to be there.

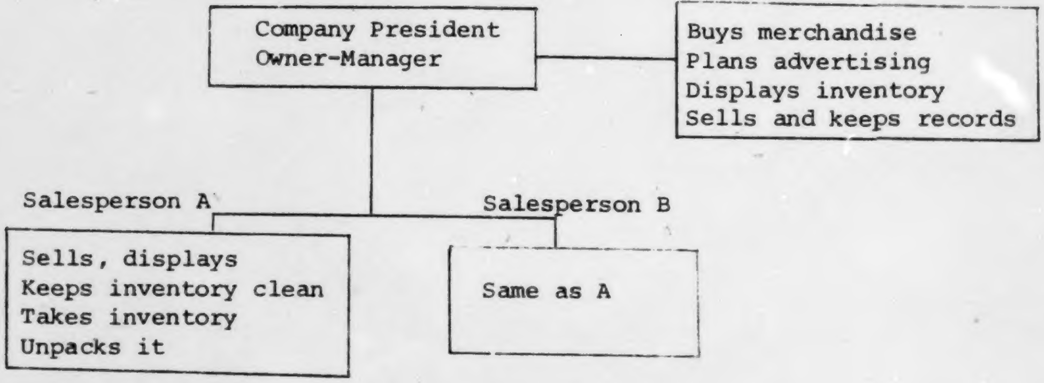
In delegating authority, the following guidelines are useful:

1. train your employee properly;
2. be certain that she knows what her responsibility is, what the limits of her authority are, and what results you expect;
3. when you delegate work, you must also delegate the authority needed to get the job done and all employees should understand this; and
4. if problems occur, discuss them with the employee and show her how she can learn from these mistakes or difficulties.

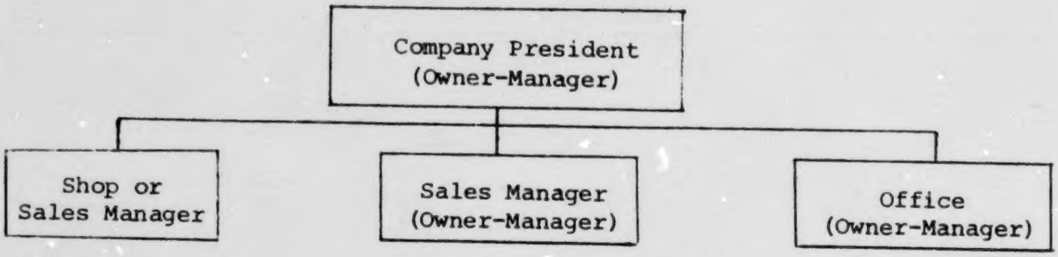
It is often suggested that jobs you know well and enjoy are the ones that should be delegated. This keeps you from giving too much attention and time to favorite aspects of the business and forces you to work on jobs you don't know well or even dislike. It's a good way to keep you learning more and more about your business.

The organization chart is a useful tool for understanding and organizing your business and can help you decide what needs to be done and who should be responsible for doing it. Most business plans include an organization chart.

Example of an organization chart for small retailers:

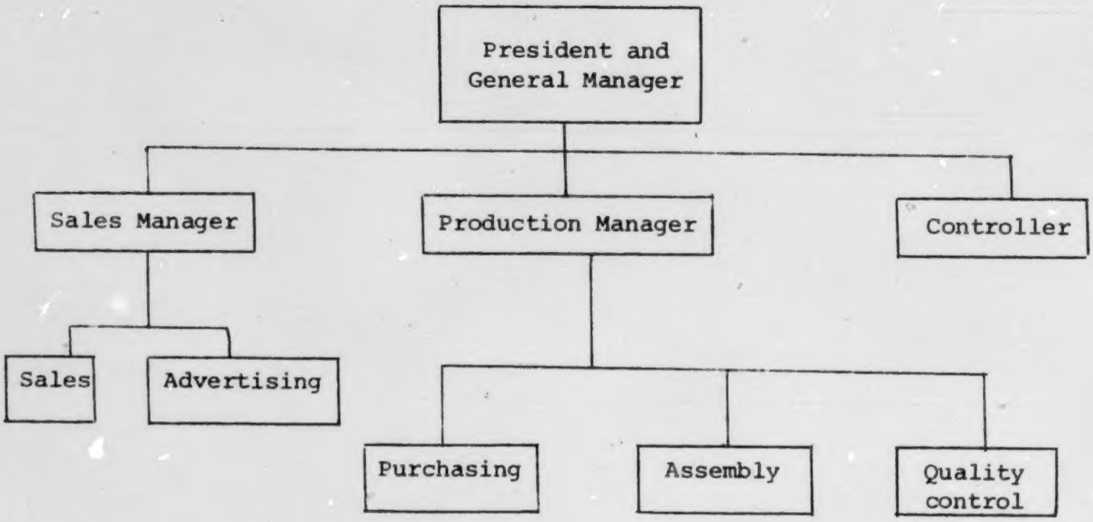

Company President
Owner-Manager
Buys merchandise
Plans advertising
Displays inventory
Sells and keeps records
Salesperson A
Sells, displays
Keeps inventory clean
Takes inventory
Unpacks it
Salesperson B
Same as A

As the business grows the owner-manager may set up the job of Assistant Manager. Here is a sample organization plan for a small service firm:


Company President
(Owner-Manager)
Shop or Sales Manager
Sales Manager
(Owner-Manager)
Office
(Owner-Manager)

An additional aid in determining what needs to be done is to list each activity that is involved in your business. Next to the activity indicate who will do it.

Here is a sample organization chart for small manufacturers:


President and General Manager
Sales Manager
Production Manager
Controller
Sales
Advertising
Purchasing
Assembly
Quality control

Conclusion

Organization is necessary because the individual who heads a business cannot be everywhere at once. She must select employees who are competent and delegate a share of authority and responsibility to each. In turn, each employee is accountable to the head. When an employee does not perform satisfactorily and you have tried to work out the problem with no success, fire the worker. A small business cannot afford the luxury of employees who do inadequate work.

In a business structure in which work, responsibility, authority, and rewards are shared, there is no room for arbitrary decisions. Instead, we find:

1. A sharing of ideas.
2. A communications system which does not merely relay orders, but exchanges information and understanding.
3. A system of control which draws all employees into the management team.

Good human relations are central to business success. As a business owner, you need to be aware of the ways in which your style of communication and of interacting with others affect employees, customers, and the general public in the community. Your human relations skills will create the atmosphere and image of your business.

Employer-Employee Relations

Nearly 70% of customer losses can be attributed to indifferent employee services. Therefore, it is critical that your employees put forth a sincere effort. Employees follow the lead of the business owner who makes policy, sets an example, and points the direction in which she wants the business to go. Unless you treat your employees in an open, honest, and considerate manner, they can't treat customers in this way. If you want to develop a business that has steady, repeat customers and good community relations, you must communicate this to your employees not only through the rules and policies you establish but through your actions.

A very important part of your community relations program is orienting and educating your employees to the role they play in your total program. No matter how good your personal community relations work is, the efforts can be wasted unless the people who work with you support them. A discourteous receptionist or sales person, an accountant or billing clerk who does sloppy or inaccurate work, an inconsiderate or reckless delivery driver, or a janitor who does a haphazard job can alienate customers and the general public.

The fact sheet you read on "Employees" discusses many of the ways in which you can build good relations with your employees. They need to feel that they are an integral part of the business and that its success depends on them. It's also essential that you let your employees know what is expected of them and what kind of business image you want to build.

Customer Relations

Customers select particular businesses for the following reasons:

convenience;
variety of selection;
price of goods or services;
quality of goods or services;
courtesy of employees;
integrity of the business (i.e., its reputation for fairness);
services it offers (for example: delivery, credit, return policy); and
atmosphere or environment.

When customers use a small business, they don't expect to find the same prices or merchandise they look for in a chain store, department store, or large business. They are looking for friendly service, including prompt assistance, special ordering, flexibility on credit terms, product knowledge, and personalized attention. Recognize all the possible advantages your small business has over larger businesses and make the most of them.

You can build good customer relations by making sure that your business is a friendly place, that it is clean and neat, that you have attractive displays, and that customers receive prompt and courteous attention. Simply being able to greet customers by name can build good relations. Take a genuine interest in your customers' needs. If you don't know what it is your customer wants, you can't offer her/him that benefit. Listen to your clients. Ask them to explain, in their own words, what it is they need, and then use these words to explain how your product will meet this need. In most cases, a customer will be less interested in your products and services than in what these products and services can do for her/him. For example, your customer wants smooth, clean skin, not a particular cosmetic product. Not only will this approach help you satisfy your customers' needs, but it will guide your buying and marketing efforts.

Community Relations

Community relations can be described as the impact a business has on the people in the immediate vicinity of its base of operations; as the function of management which cultivates local acceptance, as well as community respect and confidence; or as the civic-mindedness which creates a business' image. Community relations should be a concern of any business owner. Not only are your customers and potential customers members of the community, but the future of your business is tied to that of the community as a whole. What is good for the community is good for your business. People like to deal with businesses that are community-conscious, and these businesses also tend to have far fewer internal and external problems than those which are only interested in the customers' dollars. Community goodwill can result in improved employee morale, in more qualified workers seeking employment with you, in public support in periods of economic hardship, and in cooperative relations with local government. Remember, however, that community relations efforts that are undertaken only for selfish purposes may backfire. Active community contact is a far better sales builder--and there is no better one--when that is not its purpose and intent.

There are many "communities" within the larger community that you should be aware of: the business community, the political community, service or volunteer groups, the religious community, and the educational community. A small business owner cannot be active in all community events and activities, but she can find out the goals of the community, be up-to-date on what's going on and what people are concerned about, and selectively become involved where her efforts are useful and can have impact.

There are ways you can listen:

1. attend public hearings;
2. attend meetings of civic organizations and service groups;
3. read the local newspapers, particularly the editorial section;
4. listen to the local news; and
5. stay alert to community trends and concerns.

Once you have a sense of the community's goals, think about ways you might contribute, even in small measure, to achieving them.

There are many kinds of community relations activities available to the small business owner. To prompt your thinking some examples are listed below:

1. Make charitable contributions and participate in community fundraising drives, such as Community Chest or Red Cross.
2. Take part in blood donor programs.
3. Join and actively participate in community and business organizations.
4. Sponsor activities in the areas of fire protection, noise abatement, water purification, smoke-fume elimination, or accident prevention. This is especially relevant to manufacturers.
5. Offer an "open house" or a tour of your operation.
6. Be available to speak before community groups.
7. Give your business advertising a community orientation.
8. Sponsor cultural or sports activities--serve on the campaign for enlarging the library or building a new park; back a little league team.
9. Provide on-the-job training and summer employment for local students.
10. Participate in special days and/or weeks and in community-sponsored events and celebrations, such as National Women's Day, the Christmas toy distributions, or day camp programs for underprivileged children.
11. Publicize the achievements of local citizens, especially those of your own employees.

12. Encourage your employees to take an active role in community affairs.

There are many ways in which you can participate in the community. Watch for opportunities and take advantage of them.

Some guidelines that you should follow in building community relations are offered below:

1. It should be business policy that community relations are a matter of concern. An effective community relations program can't be built without the concern, interest, and backing of the business owner.
2. Business activities should not be in conflict with public policy. If the community is concerned about traffic noise, don't send all your delivery trucks out at the same time.
3. Recognize the groups which make up your business' public and work to actively develop good relations with them.
4. Keep your employees informed about what your business stands for and how it functions. Orient even temporary help so that they can represent your business as you would like it to be represented.
5. Make community relations an ongoing activity rather than launching sporadic drives.
6. In making business decisions, consider effects on the community as well as on your business.
7. Keep informed on what the public thinks of your firm and make improvements where they are needed.

DEFINING YOUR INVENTORY

Begin identifying your basic inventory by making a list of the major items you will stock in your business. Then follow the steps below using your Inventory Worksheet.

1. Take your list and organize it into the following groups which appear on your worksheet:
    a. basic stock
    b. fast items (what you think will sell quickly)
    c. special or unique items (items you'll try to sell--to experiment with)
    d. promotional items (for advertising and good will)
2. Describe the items as specifically as you can according to size, color, brand, quality, etc.
3. Decide on the quantity you estimate you will need to start your business. This is your beginning inventory. Use your initial start-up costs worksheet, estimated sales volume, and industry averages as a basis for deciding on the quantity you will need to start your business.
4. Complete this worksheet as you collect pricing information from your suppliers.

Inventory Worksheet

Type of Article	Brief Description of Item	Start-up Quantity	Unit	Cost		Selling Price	
				Unit	Total	Unit	Total
Basic Stock:							
Fast Items:							
Special Items:							
Promo Items:							

CHOOSING YOUR SUPPLIER

If you are starting a retail, wholesale, or manufacturing business, you will need to choose your suppliers carefully. Depending on the type of service business you are starting, you may also need to choose suppliers. Follow the steps below to begin to collect the necessary information on which to develop a list of suppliers.

1. Select several major items of merchandise from your inventory worksheet and list them on the following Suppliers Worksheet.
2. Then go to the yellow pages of your telephone book (or any other source you know of) and list two or three potential suppliers.
3. Call each of these suppliers and ask if they carry the items you are looking for, and get an estimate of the cost.
4. Complete the attached worksheet.

After filling in the form for two or three suppliers, answer the following questions:

1. Do they carry the right merchandise?
2. Are their prices reasonable?
3. Is the location convenient for your business (shipments, delivery)?
4. Are there special terms or features you need to consider about this supplier?

SUPPLIERS WORKSHEET

I plan to buy my merchandise from:

Name of Item	Name & Address of Supplier	Cost of Item	Delivery Terms	Freight Costs	Discounts or Other Policies

WRITING A JOB DESCRIPTION

Assume that you will need to hire an employee to help you in your business. Decide generally what role you want the employee to play and whether it is a part-time or full-time job. Then, using the "Employee" fact sheet as a guide, prepare a job description using the general categories listed below.

Job title: ______________________________
Full-time or part-time: ______________________

Responsible to:

Duties (brief description of the job):

Requirements (education, training, experience, skills, memberships, licenses, etc.):

Personal (any other characteristics you would like the employee to possess):

Now list three possible sources of advertising or other sources you would use to find potential candidates:

RULES AND POLICIES

The rules and policies you establish are directly related to your business' image. Consider what rules and policies you will want your business to have by completing this worksheet.

1. Describe the image you intend to develop for your business.

2. How do you propose to create and maintain this image?

3. List the basic rules, policies, and principles that you plan to establish in order to build and maintain this image. In making business rules and policy, consider employee, customer, and community relations.

BUILDING COMMUNITY RELATIONS

Building community relations is good business. Consider ways in which you could develop your ties with the community by answering the questions below.

1. List the community activities in which you currently participate.

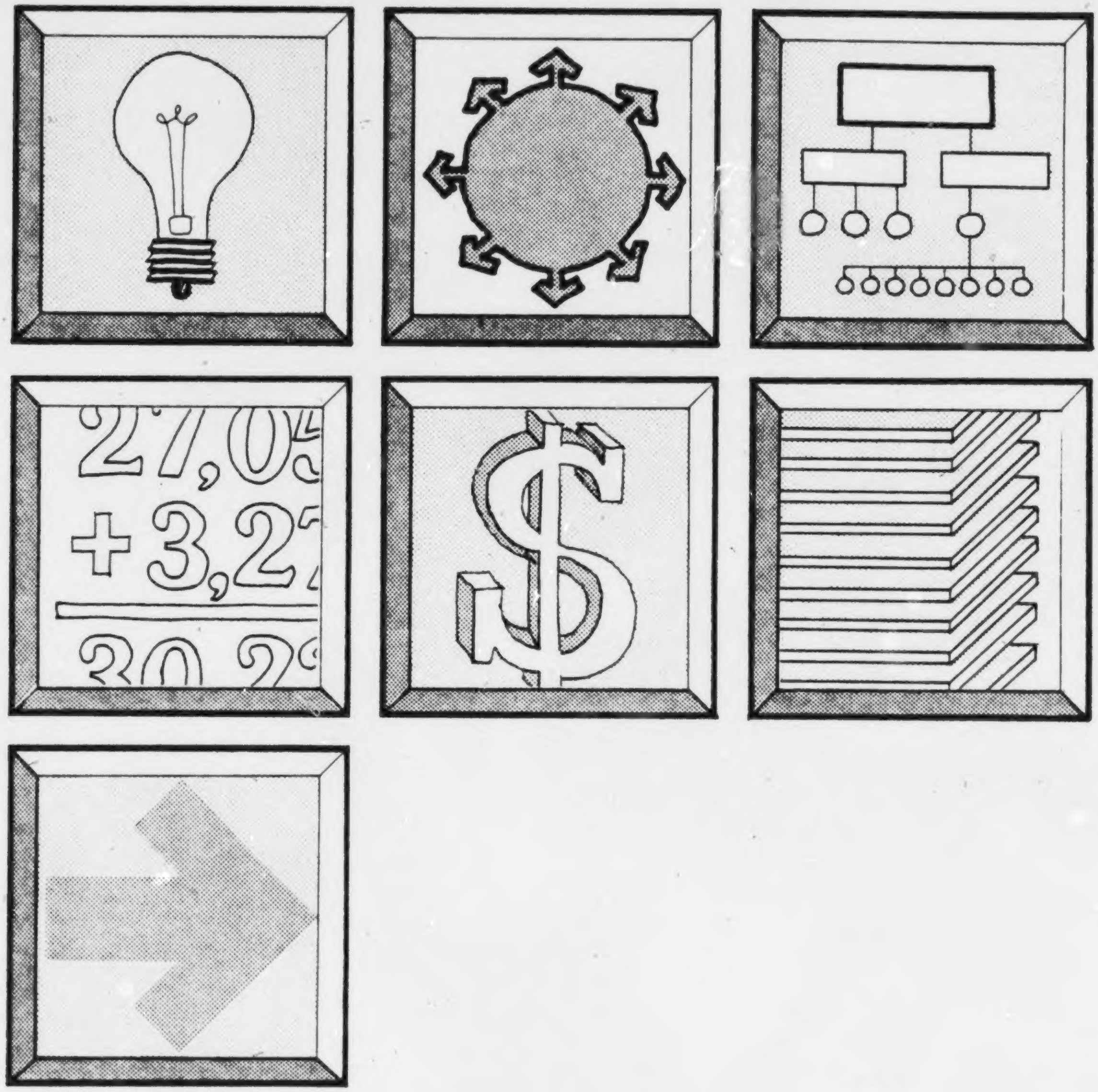
   List some additional community activities in which you could take part.

2. What groups within the community do your future customers belong to?

3. What could you do for these groups?

4. How can you find out what the public thinks of your business?

PI



Putting it all together

Planning Your Business

Good planning is essential to business success. Although large companies can absorb mistakes, small businesses have little room for managerial error. As the owner of a small business, you must continuously work to develop your managerial skills: time management, delegation of authority, decision-making, problem-solving, setting policy, communications, human relations, business image building, and planning for the future are all important abilities.

As your business grows, the skills required of you will vary and change. You need to be prepared to make the transition from business operator, to business manager, to business executive as your business moves from one developmental stage to the next. While practice can help you develop your skills, you should also read, attend seminars, courses, and/or conferences, and take advantage of the learning opportunities provided by contact with other business owners.

Remember that putting together a business plan is only the first step. Planning is an ongoing process. Just as you are now looking ahead and planning for all aspects of your future business, you must continue to look and plan ahead after your business is in operation.

When you have completed this LAP, you will be able to:

1. Explain at least two benefits of planning and name at least two barriers that often block planning efforts.
2. Write five questions you could ask yourself to get started on planning for your business' future.
3. Distinguish between long-range and short-range goals and write an example of each.
4. List the key elements that should be included in the business plan for a new venture.
5. If you have carefully completed the previous LAPs, you should now be able to use this work to put together your business plan.

Before your next class: Review the materials included in the LAP. Read the fact sheets on "Business Planning" and "The Business Plan."

ACTIVITIES

The activities listed below are designed to guide your learning about business planning. If you follow them step-by-step, you should be able to achieve the 5 goals of this LAP by the time you are finished.

1. Attend a class presentation on important planning skills and on how to develop these abilities. Participate in the question and answer period with the guest speaker(s).

On your own...

2. Start developing your planning skills by completing the worksheets on "Setting Goals" and "Futures." You may find it helpful to refer to the "Business Planning" fact sheet.

3. Complete the worksheet on "Managing Your Time." Is your time and energy being used as you would like it to be?

4. Choose one of the business plan outlines included in the fact sheet "The Business Plan." Go back through the LAPs you have completed and determine:

   a. what information you have developed can be fitted into your business plan as is;

   b. what information needs to be changed--additions, deletions, or modifications--in order to go into your business plan; and

   c. what information is missing and must be developed for your business plan.

   Develop a priority list of actions that you will need to take in order to complete your business plan. Set a completion date for each activity.

5. Each person will have an opportunity to report on the current status of her business idea to the class. If you could use some ideas or suggestions, this is a chance for you to get some help from the whole class.

MATERIALS

The forms that should be included in your package of materials are:

Fact Sheets:
Business Planning
The Business Plan

Worksheets:
Setting Goals
Futures
Managing Your Time

Optional Reading

Bank of America. Business management: advice from consultants. Small Business Reporter 11 (3), 1973. These experts stress the importance of decision-making, planning, delegating authority, the owner taking a managerial role, and communications to business success and offer examples of what may occur when these aspects of a business are poorly handled.

Bank of America. Avoiding management pitfalls. Small Business Reporter 11 (5), 1973. The sections on money management, planning, time management, and assuming the proper role as your business grows are particularly related to the topics of this LAP.

Feller, J. H. Keep pointed toward profit. SBA: Management Aids for Small Manufacturers No. 206, 1976. This aid offers suggestions on how a business owner can keep control of his business' activities rather than being controlled by them. The importance of being informed, making timely decisions, and taking effective action is emphasized.

Golde, R. A. Breaking the barriers to small business planning. SBA: Management Aids for Small Manufacturers No. 179, 1976. The benefits and barriers of long-range planning are discussed and suggestions for overcoming the barriers are offered. Excellent reading for any small business owner.

Sommer, H. E. How to analyze your own business. SBA: Management Aids for Small Manufacturers No. 46, 1962. The importance of a strong organizational structure to business growth and questions designed to guide an examination of your organization's structure are the first subject of this aid. It also includes a checklist of 45 sets of statements which will quickly show you what aspects of your business need the most attention and where you should concentrate your action.

BUSINESS PLANNING

If a business venture is to survive in our society, which is characterized by its rapid rate of change, and in the marketplace, which is highly competitive, its owner must plan. A business that gets along on a day-to-day basis will always be one step behind its competitors and it won't be able to take advantage of opportunities for growth and development. Good planning reduces risk and increases the probability of success. Planning is especially important for small business because few small enterprises can afford the financial loss that usually occurs when a business belatedly attempts to adjust to change.

Planning involves stepping back and looking at your business, thinking about its future, and then determining a course of action to get the business from where it is now to where you would like it to be by a certain point in time. Thinking ahead and vowing "to do better next year" is *not* planning. When you plan, you set goals and develop a strategy for achieving them. Every business owner should look ahead and plan for *at least* the next two years.

Benefits of Planning

Planning assists and strengthens your business in a number of very specific ways.

1. Planning helps your business *cope with change*. A business owner who plans can anticipate changes before they happen and make adjustments so that she is ready for them. A retail clothing store owner who overstocked last year's fashions and was still trying to sell them this year or a beauty show owner who had no operators who had been trained to cut the latest hair styles would be rapidly put out of business by their competitors. A manufacturer who hadn't realized her major product was about to become obsolete couldn't begin to develop, produce, and market a new product in a month or two. A business owner must look ahead and be ready to change with the times in order to survive.

2. Planning helps a business owner *make decisions*. Many choices you must make as a business owner have long-term effects; that is, you are deciding now to invest time, effort, and/or money in order to achieve a benefit that will be realized over a number of years. To decide if this investment is worthwhile, you need to look at the business' future. Are the typewriters you are considering purchasing for your secretarial service going to be outmoded in a year? If so, place an order for the new model that's coming out and rent the machines you need in the interim. Poor investments can be expensive mistakes and are hard to correct.

3. Planning helps a business make the *best use of its resources*. Small businesses have limited money, personnel, and facilities so it's especially important that these resources be used well. Stepping back to look at your business and plan for it helps you to identify all available resources and to combine them so that they are used in the best possible way. You need to decide not only what has to be done but when it should be done. Looking at what needs to be done today, it may seem that an employee should be "doing her job"--operating the drill press, typing, or cutting

hair--but looking ahead, you may realize she should be receiving training in how to run the new machine you've ordered, how to unjam the xerox machine, or how to cut the new hair styles.

4. Planning can improve the current operations of your business. When you look at your business as a whole, you'll find areas that need improvement that you just haven't seen as you handled day-to-day operations. You may discover, for example, that you've been putting too much effort into selling products with a low profit margin. Planning also involves setting standards for each aspect of your business operation. Knowing what it is you want to achieve will direct your efforts and those of your employees in the most productive direction. By the same token, it encourages teamwork; when there are recognized, agreed-upon goals, people will work together to achieve them.

Barriers to Planning

Given that planning can have all of these positive effects, why is it so often neglected by small business owners? There are barriers to planning and encountering any one of them is usually enough to stop most small business owners from planning. You should know what these obstacles are so that you can recognize them for what they are when you find yourself explaining why you can't plan.

1. "I have enough worries right now without trying to cross bridges ahead of time." If you hear yourself saying something like this, ask yourself whether you're not really saying: "I'm afraid!" It's important to look to the future so that you can be prepared both for the problems and for the opportunities. If there are problems, you're much better off facing them prepared with a plan of action than with no plans.

2. "Things never work out the way you plan them so what's the use?" Planning is uncertain because the future is, but you can play the odds. There are strong probabilities that you can use to guide your actions. For example, you can make a good informed estimate of whether or not customers will still want your product in two years or in 10 years, if you've done some research. You need to develop a description of what will probably happen and then plan in that framework.

3. "I no sooner make a plan than something happens and I have to start all over again." If you hear yourself saying this, you need to look at the kind of plans you make. Are they too long-range and rigid? If you're in a business where change is especially rapid, concentrate on planning for the next year or two, not five or 10 years ahead. Make flexible plans that can be altered and revised as necessary. When you're planning consider different changes that could occur and try to build in allowance for them or contingency plans. For example, in thinking about building a new plant, consider what you would do if demand for your product turned out to be less than expected, and also what you would do if demand were greater than predicted. In this way, you can be prepared with plans designed to help you cope with any one of three alternative situations: low demand, expected demand, or high demand.

4. "There's no time to plan in this business. Every time I sit down, someone comes in with a problem that needs my attention." As a business

owner, you'll have to schedule blocks of time for planning and find a place where you won't be disturbed. Many business owners find that regularly scheduling evening or weekend time at home or at the office is the only way they can work on planning. Don't wait for time to just show up, because it won't.

5. "I don't know how to plan." Essentially, there are three stages to planning: 1) setting goals; 2) developing plans to achieve your goals; and 3) assessing progress towards your goals. The next section of this fact sheet will discuss ways to get started on planning.

Getting Started

The key to planning is formulating questions about your business that you need to answer, gathering the information you need to answer them, and then making decisions based on your answers. You also need to know where you are in order to think about where you want to go. Analyzing your present situation can help you begin thinking about where you hope to go in the future.

Examples of questions you might ask yourself to get started on planning are:

What business am I in?

What is the competitive position of my business in the market?

What is my competition's biggest handicap and how can I exploit it?

Are my products selling well? Are some selling better than others?

Who are my customers? Are they customers I want?

What is my business' image to potential customers?

What is my biggest problem? What are my specific goals for improvement?

What will this field be like in 5 or 10 years?

Do sales justify expanding the business?

How can I finance growth?

Another approach to planning involves writing down the information you need to plan:

1. a brief description of the business' present practices in all important areas--products, purchasing, quality control, labor relations, sales outlets, advertising, etc.;

2. a brief description of present management procedures, reports, and organization--including job descriptions and an organization chart;

3. a list of the main factors outside of the business which affect it--government, the economy, competition, scientific advances, the community in which you do business, etc.;

4. a list of the changes you expect in the next few years in any of the factors you wrote down for number 3;

5. a list, based on what you have written down for 1 through 4, of the main strengths and weaknesses of your business.

One, both, or some combination of these two approaches should trigger ideas and start you going on the planning process. Try to select several key areas where you want to focus your efforts and begin to consider alternative courses of action.

Goal Setting

Select a course of action and a logical timetable. Planning involves setting long-range and short-range goals. Long-range goals are to be accomplished a year or more into the future. Short-range goals, which are determined by your long-range goals, are to be accomplished in less than a year and are more operationally-oriented (that is, they say how you plan to achieve the goal). For example, your long-range goal might be to increase sales by 25% within one year, while your short-range goal is to increase sales by 10% by the end of the fiscal quarter by adding two salespeople to the sales staff.* The short-range or sub-goals are very clear, specific steps that you can take now to move you towards the long-range goal you want to achieve in a year or so. Your chances of accomplishing the long-range goal are improved by breaking it down into explicit, short-range goals.

Management goals should be stated in specific measurable terms--quotas, percentages, dollar sales, cost reductions, or deadlines, for example. Your goals must also be realistic. If you can't assess your success in accomplishing your goals or you've set goals that couldn't possibly be achieved, you've wasted your time and you'll probably be discouraged by the whole process.

Written Plans

Once you've begin planning and goal setting, write down your plans and goals. Writing will help clarify your thought and written plans serve as a communications tool, they help you explain your ideas to others--bankers, suppliers, employees--whose help you will need in order to implement your plans and achieve your goals. Written plans are also useful for you when you get so involved in day-to-day operations that you lose track of where you're going. Going back and rereading your plans can get you back on track and headed in the right direction.

Implementation

When you've developed your plan, the next step is to put it into action. Since one of the chief advantages of small businesses is their flexibility, you can always adjust your plans to new situations. The important thing is to set to work according to your plan.

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*Another example: Your long-range goal is to attract 25 new advertisers to your rock radio station within one year; your corresponding short-range goal is to attract six new advertisers within 3 months by contacting at least 100 businesses catering to the youth market.

If you have employees, they will play a key role in helping you accomplish your goals. Review the organizational structure of the business to be sure it will facilitate rather than block the accomplishment of the goals you've set. Discuss your plans with key employees to gain their support. While you should supervise and evaluate progress, delegate some of the responsibility for the work that needs to be done. Make certain your employees know exactly what is expected of them and to whom they are responsible.

Review Your Progress

Experts recommend that every business have a two year plan that is reviewed every three or six months. If you don't use the goals you've set by checking your performance, they're meaningless. Set control points where you stop and compare actual performance to your plan. Are your sales up 10% or not? If you're off target, decide what corrective action needs to be taken. Do you need to work on actual performance to bring it into line with your plan, or were the goals you set unrealistic and, therefore, in need of revision? Be flexible enough to alter your plans, if changes will help you, and learn from your mistakes.

Financial Planning

One specific kind of planning that is very important to your business' survival and success is financial planning. Cash flow, keeping incoming cash balanced with outgoing cash, is frequently a problem in new businesses, especially those that start out undercapitalized. Financial planning can help you anticipate cash crises, perhaps allowing you to avert the problem, but more probably giving you time to build your case for loan presentations and to shop around for a loan on the best terms. Because business owners who are planners know what to expect from their business, bankers consider them good credit risks.

Financial planning, in theory, is very simple. You estimate as accurately as you can your sales for the next 3, 6, or 12 months and then your expenses connected with these sales. Using these estimates, you determine whether the business will need cash, in addition to what the sales bring in, to pay the bills on time. If you decide a loan will be needed, then you should begin to figure out how it will be repaid. Obviously, the accuracy of your estimates is critical.

The financial records, estimates and statements that you will need in order to plan are: cash forecasts, income and expense budgets, capital budgets, profit and loss statement, balance sheet, financial ratios, break-even point, and inventory turnover. Financial planning must be continued on an ongoing basis and, in addition to looking ahead 3 or 6 months, you should have a long-range plan for 2, 3, or 5 years from now.

Planning Hints

- Base business decisions on business considerations.
- If you are unsure about a decision you need to make, ask people you respect for their advice. Listen and use them as a sounding board to clarify your thought.
- Log your daily activities and see how much time you're spending on easily delegated responsibilities and how much time is going into executive duties and planning.
- Know your business records. Analyzing the historical trends of your business shown in its records allows you to forecast for the year ahead.

No matter what kind of business you plan to start or how you expect to finance it, you should develop a business plan. Over half of all new businesses fail within two years of their opening--some experts report 82% fail within this time period--and the major cause of business failure is poor management. Good planning can help you avoid poor management. A thorough, well-thought-out business plan is essential if you are to avoid becoming a business fatality.

The business plan takes your idea and turns it into a plan of action for reaching your goal. The process of putting together a sound business plan will get you into the hard-core basics and practical realities of all aspects of starting and running a business. Researching and writing a business plan will help you foresee possible problems so that you can arrange to avoid them entirely, be on your guard for the first signs of difficulties and ready to catch and cope with them, or--if, for example, a period of sales slump is predictable in your type of business--plan so that you can have the necessary resources to survive these problems. In the process of developing your business plan, you will also be developing your own business knowledge and managerial skills.

Once you've put together your business plan, it will help you explain your business idea to accountants, bankers, lawyers, insurance agents, suppliers, employees, and other people whose help or support you may need to move from the planning phase into operation. It will give them a clear and complete picture of exactly what it is you are proposing to do and a good business plan will convince them that you're serious about your idea and know what you're getting into. If you are trying to get a loan or money from investors to start your business, the business plan is your sales tool.

After your business is in operation, you can monitor its progress and success against the projections you made in your business plan. If you expected to be making $X amount in sales at the end of three months, you can compare the actual amount you've made after three months to this estimate. If you're right on target, that's great. If you're not doing the business you had expected, you know it now and you can sit down and try to figure out why, what you can do to improve the situation, and what this means for and about your business. It may be that your business plan needs revising, but, if you've based it on accurate and complete information and been as realistic and objective as possible in writing it, there is probably something you can do to get your business back on target.

The Contents of a Business Plan

There is no one formula that tells you how to organize your business plan and in what order you should cover the various topics. However, there is agreement about what information should go into your business plan and, in general, there is a logic to how you should present this information. If you have carefully completed the readings and worksheets in the LAPs, much of putting together your business plan will involve organizing information you have already developed into an attractive, typed package.

On the following pages you will find four different outlines for a business plan. You can choose one or reorganize the topics into another form that you prefer. Regardless of the form you choose to use, your business plan should be packaged in a folder or ring binder. Your first page should be a cover or introductory page and, if you have developed a logo or other graphic identification for your business, include it here.

The second page should be a disclaimer, a statement that this is a business plan and not a prospectus. A prospectus is a solicitation to sell securities and the Securities and Exchange Commission has rules, regulations, and fees concerning prospectuses and fines individuals who use the U.S. mails to distribute unregistered prospectuses. If you are using your business plan as a sales tool to convince backers to invest in your business, you should meet with them in person to make these arrangements. If and when an agreement is reached, a separate letter can be written to confirm your understanding and the terms of the agreement.

The third page of your business plan should be a table of contents of the major sections or headings in the business plan package. If your package is large, you may want to include dividers or tabs for easy reference.

BUSINESS PLAN OUTLINE: 1

Part I: The Product

This section is essentially an overview of your future business. It should include:

A. a brief description of your product or service;
B. an explanation of the need it will satisfy;
C. a description of potential users of your product or service;
D. a description of the service and how and where it will be delivered or administered OR
a physical description of your product and how and where it will be manufactured;
E. an assessment of your competition and an explanation of how your product or service is different or better than those already in the marketplace. If you're proposing to introduce something completely new to the market, make a point of mentioning this and explain why this is so.
F. a description of any economic, social, or calender considerations that are critical to the start-up timing or success of your business. (For example: it's critical that you open your toy store a month before Christmas rather than a month afterwards. In a period of intense concern with crime and security, your guard dog training business has a good chance of being successful.)

Part II: Market Research

This section should document the way you conducted your market research and what you found. It should include your research and findings on:

A. the need for your product or service;
B. the competition your business will face; and
C. the percent of potential users you expect will buy your product or use your service.

Part III: Marketing Plan

This section should explain:

A. how your product or service is to be sold;
B. the size or deployment of your sales force or distributors; and
C. the advertising and promotion program that will announce and support your business.

Part IV: Personnel

This section should include:

A. your resume and those of your partners, key management people or sales personnel who will be involved in your business;
B. job descriptions of the positions these people will hold; and
C. if your business has a staff, an organizational chart. If your business is a one or two person operation or involves a nonhierarchial or some other nontraditional organizational structure, you should explain how decisions will be made and operations handled.

Part V: Financial Information

A. If an accountant prepares your financial materials, introduce this section with her/his cover letter.
B. income statement (also called profit-and-loss statement) and
C. cash-flow projections

(Both B and C should cover at least three years of business operations and,preferably, five years.)

D. These two forms will help you determine how much capital you will need to start and run your business; estimate your break-even point; and predict the growth of business revenues and profit.

E. To clearly show the range of return you may expect from your business, it is often advised that you predict the growth of your business not only on the basis of expected sales but also for low and better-than-expected sales.

F. Briefly summarize your Market Research section since this is the source of the assumptions on which your financial statements and projections are based.

BUSINESS PLAN OUTLINE: 2

Part I: Business Structure
  - A. Legal Form of business
  - B. Location, if selected
    Include street address, names of the main streets in the area, other types of businesses in the area, and the locations of your nearest competitors.

Part II: Business Activity
  - A. A brief description of your business
  - B. A comparison of your business and its competitors

Part III: Plan of Action
  Explain how you will operate your business in terms of:
  - A. Management
  - B. Advertising
  - C. Training and Personnel
  - D. Control functions (that is, cost, inventory, pilferage, and so on)
  - E. Suppliers
  - F. Customers
  - G. Legal and Accounting
  - H. Any other aspects of your business that ought to be clarified

Part IV: Personnel
  - A. Resumes of all key personnel
  - B. A list of future employees by job title, wages or salary, work schedule, etc.

Part V: Financial Information
  A breakdown of the total amount of capital you plan to start your business with by how you plan to use it.

BUSINESS PLAN OUTLINE: 3

Part I: Personal background information

Part II: Business description
This section should include descriptions of the products or services you plan to offer and of the location you want to obtain.

Part III: Analysis of the market to be served

Part IV: Analysis of the existing competition
This should include your estimate of their share of the market.

Part V: Strategy for success

Part VI: Projected financial statements
This section should include your cash-flow projections and your income statement.

BUSINESS PLAN OUTLINE: 4

Part I: Summary
- A. Business description
  - 1. name
  - 2. location
  - 3. product or service
  - 4. market and competition
  - 5. management expertise
- B. Business goals
- C. Earnings projections

Part II: Market Analysis
- A. Description of the total market
- B. Industry trends
- C. Target market
- D. Competition

Part III: Products or Services
- A. Description of your product(s) or service(s)
- B. Comparison to your competitors' products or services

Part IV: Manufacturing Process (if appropriate)
- A. Materials
- B. Sources of supply
- C. Production methods

Part V: Marketing Strategy
- A. Overall strategy
- B. Pricing policy
- C. Sales terms
- D. Method of selling, distributing, and servicing products

Part VI: Management Plan
- A. Legal form of business
- B. Organizational chart and responsibilities or other organizational plan that describes responsibilities and decision-making authority
- C. Resumes of key personnel
- D. Staffing plan and number of employees
- E. Facilities plan, including any improvements you plan to invest in
- F. Operating plan, including your work schedule for one or two years

Part VII: Financial Information
- A. Five-year financial projections (quarterly for the first year and annually for years two through five)
  - 1. Income Statement
  - 2. Balance Sheets
  - 3. Cash flow chart
  - 4. Capital expenditure estimates
- B. An explanation of your projections
- C. Key business ratios
- D. An explanation of how you plan to use your funds
- E. The return investors could expect compared to the competition and the industry in general

The Business Plan as part of the Loan Package

If you plan to try to obtain a loan to start your business, to buy an existing business, or--later on--for working capital or to expand your business, your business plan will be a major part of your loan package. The kind and amount of additional information you must provide depends on the requirements of the lending source you plan to approach. Banks, the SBA, SBICs, MESBICs, and venture capital companies will have the most detailed and specific requirements. Before putting together a loan package, you should contact the lending source to learn exactly what their requirements are. It is very probable that they will have guidelines which outline exactly what information they need and forms that they require you to complete.

In addition to information about your business,including how you plan to use the funds you are requesting, lenders and lending institutions will want detailed information about your personal financial history and your current financial position. They will also want credit references. The Bank of America's Small Business Reporter 13 (7) titled "Financing Small Business" includes an outline of a complete loan package and sample loan documentation for a hypothetical SBA-guaranteed bank loan.

Acquiring a loan is neither a quick nor an easy process, but it can be done. If you are starting a new business and have no track record in business or highly impressive financial position, you may have a better chance of raising loans through approaching friends, family, and contacts who know you and believe in your abilities. Later on when your business is operating, the lending institutions will be far more receptive to your loan requests. However, if you can't get the money to start your business and you are convinced your idea is sound and your research was thorough, don't hesitate to make appointments at the more official lending sources.

Your long-range goal is to take a vacation in one year. Write three to five short-range goals based on this long-range goal that will help you accomplish your objective. Remember that your short-range goals should be stated in specific, measurable terms.

Describe your control procedures. How will you check your progress in achieving these goals? How often will you check it?

FUTURES

PI4

In order to plan for the future, you need to consider how changes in society will affect the market for your product or service. A successful business owner monitors the larger environment in which her business exists and changes with the times.

1. What makes the business you propose to start a good risk? Why is it timely?

2. What forces outside your business affect your market? (Consider political and legal factors, the economy, technological or scientific advances, competition, the community, and social trends.)

3. What changes can you foresee in the future in any of these forces?

How will these changes affect your market?

How will your business need to change to stay timely?

MANAGING YOUR TIME

As a future business owner you have a number of demands on your time. As a business owner you will have even more to do. You must learn to manage your time well. The objective is for you to be in control of your job--and your life--rather than responding to the demands made on your time in a haphazard manner.

1. The first step in managing your time is to clarify your goals. What is important to you and where do you want your time and energy to go? (Consider your professional and your personal life.)

2. Where is your time going now? (It may help you to keep an hour-by-hour log of your time for a week to see how you are actually using your time.)

3. What activities that aren't very important to you are taking too much time and energy?

   Which of these could be dropped entirely, delegated, or shared with others?

4. When do you work best? mornings? afternoons? from 11 p.m. to 3 a.m.?

   Schedule activities so that they fit into your style and patterns of working. Budget work periods and use them. Set priorities on jobs that need to be done and see that you do top priority work first. And don't forget to schedule time for you. It's better to have a schedule you can adjust than no schedule at all.